

1993

# AICPA quality review program manual as of January 1 1993

American Institute of Certified Public Accountants. Quality Review Executive Committee

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AICPA QUALITY REVIEW PROGRAM MANUAL

As of January 1, 1993

AICPA

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As of January 1, 1993

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**AICPA**

American Institute of Certified Public Accountants



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# **AICPA QUALITY REVIEW PROGRAM MANUAL**

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Prepared by the  
Quality Review Executive Committee

American Institute of  
Certified Public Accountants

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**As of January 1, 1993**

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**AICPA** \_\_\_\_\_  
American Institute of Certified Public Accountants



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# HOW TO USE THIS VOLUME

## Scope of the Volume . . .

This volume brings together the *Standards for Performing and Reporting on Quality Reviews* and the policies, procedures, checklists, and programs developed by the AICPA Quality Review Executive Committee for use when administering, arranging, and carrying out quality reviews.

## How This Volume Is Arranged . . .

The contents of this volume are arranged as follows:

Introduction

Information About the Administration of the Quality Review Program

Standards for Performing and Reporting on Quality Reviews

Guidance for Writing a Letter of Comments

On-Site Quality Reviews for Firms That Perform Audits

On-Site Review Engagement Checklists

Summaries of On-Site Review Engagement Findings

Off-Site Quality Reviews for Firms That Perform No Audits

Guidelines for Involvement by Associations of CPA Firms in the Quality Review Program

Inspection Guidance

Consulting Review Program Guidelines

## How to Use This Volume . . .

The arrangement of material is indicated in the general table of contents at the front of the volume. There is a detailed table of contents covering the material within each major division.

The major divisions are subdivided into sections, each with its own section number. Where possible, each paragraph within a subdivision is decimally numbered. For example, QRP section 2000.01 refers to the first paragraph of section 2000, "Information About the Administration of the Quality Review Program." Section and paragraph numbers located on each page are provided as corner references at the bottom of each page.

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# QRP Section 1000

## INTRODUCTION

**.01** Members of the American Institute of Certified Public Accountants who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as proprietors, partners, shareholders, or employees of firms enrolled in an approved practice-monitoring program in order to retain their membership in the Institute beyond specified periods. A firm enrolled in the AICPA quality review program or a member firm in the AICPA Division for CPA Firms is deemed to be enrolled in an approved practice-monitoring program (an enrolled firm). (See sections 2.2.3 and 2.3.4 of the bylaws of the AICPA and the implementing Council resolutions under those sections.)

**.02** The AICPA Board of Directors has established a quality review division within the Institute, which is governed by an executive committee having senior technical committee status with the authority to establish and conduct a quality review program in cooperation with state CPA societies that elect to participate. This Committee is called the AICPA Quality Review Executive Committee.

**.03** This manual has been prepared by the AICPA Quality Review Executive Committee. The standards, policies, programs and checklists set forth in this manual have been developed to assist—

- a. Reviewers carrying out quality reviews.
- b. State societies that participate in the administration of the program.
- c. Associations of CPA firms that assist their members in arranging and carrying out quality reviews.
- d. The AICPA Quality Review Division itself.

**.04** In performing quality reviews, review teams must complete *all* relevant programs and checklists issued by the AICPA Quality Review Executive Committee in a professional manner. Failure to do so creates a presumption that the review has not been performed in conformity with the standards governing the program.

**.05** The manual is in loose-leaf format in anticipation of updating and expansion. Changes are expected to arise from three sources:

- a. Comments and suggestions from individuals or groups in the program.
- b. Needs identified by the AICPA Quality Review Executive Committee.
- c. Issuance of new official pronouncements by the Financial Accounting Standards Board, the AICPA Auditing Standards Board, and other senior AICPA committees.

**.06** Comments and suggestions should be addressed to:

Quality Review Division  
AICPA  
Harborside Financial Center  
201 Plaza III  
Jersey City, NJ 07311-3881



\* \* \* \* \*

**Quality Review Executive Committee (1988-1989)**

MICHAEL A. WALKER, *Chairman*  
GERALD H. BANWART  
BRUCE S. BOTWIN  
PAUL R. BROWNER  
BERNARD W. GRATZER\*  
BRUCE N. HUFF  
WILLIAM G. KOCH  
DUANE W. KUEHL  
ZENO H. MONTGOMERY  
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**QRP Section 2000**

**INFORMATION ABOUT THE ADMINISTRATION  
OF THE QUALITY REVIEW PROGRAM**

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# QRP Section 2000

## *Information About the Administration of the Quality Review Program*

### General

.01 This section has been developed by the AICPA Quality Review Executive Committee to provide information on the administration of the AICPA quality review program. The section does not have the authority of pronouncements issued by the AICPA Quality Review Executive Committee.

### Enrollment Requirements

.02 Every CPA firm that is not a member of the AICPA Division for CPA Firms should enroll in the quality review program, whether or not it has an accounting or auditing practice. To enroll in the program, a firm should submit a "Quality Review Program Enrollment Form" to the AICPA Quality Review Division at Harborside Financial Center, 201 Plaza III, Jersey City, NJ 07311-3881. Quality Review Program Enrollment Forms can be obtained from the AICPA or participating state CPA societies.

.03 Every CPA firm, regardless of its size, must have a system of quality control for its accounting and auditing practice. However, preparation of a quality control document is not required to have a quality review. Completion of a brief quality control questionnaire is all that is required.

.04 An enrolled firm must have a quality review in accordance with the *Standards for Performing and Reporting on Quality Reviews* (see QRP Section 3000) once every three years if it performs audits, reviews or compilations. (See also paragraphs .08 through .13 of this section.)

.05 At least one of the proprietors, partners, or shareholders of an enrolled firm must be a member of the AICPA.

.06 A firm may not resign during the course of a review because, for example, it expects to receive a qualified report or the reviewer has discovered a substandard engagement on which the firm must take some action under applicable professional standards. A review commences when an engagement letter is signed and returned to the entity that is forming the review team or when the reviewed firm enters orally into the agreements usually included in an engagement letter. A review is deemed completed when the firm has taken any actions deemed necessary by the committee as a result of that review and has been so notified.

.07 Receipt of a firm's resignation from the quality review program, or receipt of a resignation from membership in the AICPA by the sole owner of a firm or by the only partner or shareholder of a firm who is a member of the AICPA, in the circumstances described in paragraph .06 above will be considered evidence of a failure to cooperate and will lead either to termination of the firm's enrollment in the quality review program or a hearing to consider whether to terminate the enrollment of the firm (see Exhibit 8, for the relevant resolution of the Quality Review Executive Committee).

### Timing of Reviews

.08 Initial reviews of firms that enroll at the inception of the program will be phased in over a five-year period starting in 1989. During the phase-in period, firms with more than ten professionals that perform audits of historical or prospective financial statements ("audits" of prospective financial statements are referred to as "examinations" in relevant professional standards) will go first. Smaller firms will follow, and then sole practitioners. The AICPA Quality Review Division notifies firms of the timing of their reviews.



.09 The due date assigned to firms for initial quality reviews will be determined by a random, computer-assisted selection process in accordance with the timetable in Exhibit 1.

.10 Firms enrolling in the program after June 30, 1989, shall be required to have their initial reviews within eighteen months of enrolling in the program or by July 31 of the first year in the range noted in the transition timetable for the category in which the firm falls, if later.

.11 Firms without audit, review or compilation clients will not be reviewed. However, if the firm gets an audit, review or compilation client, it will be expected to have a review within 18 months of the fiscal year-end of the first auditing and accounting client accepted.

.12 A firm may find that it cannot have its quality review by the date assigned. In these circumstances, the firm should submit a letter to the entity responsible for administering the firm's review prior to the due date of the review. Ordinarily, that letter should be submitted at least sixty days prior to the due date and should cite the reasons why the firm cannot have the review and should offer an alternative date for the review. However, extensions should be hard to get since a quality review focuses on the quality of a firm's engagements—if a firm is doing quality work, it should have no problem with quality review. And if it's not, it's better to find out sooner, not later.

.13 If a firm has any questions regarding the date by which it is due for review, it should contact the AICPA Quality Review Division at 201/938-3030.

## Sources of Reviewers

.14 A quality review may be performed by:

- a. A team appointed by the AICPA Quality Review Division or by a state CPA society participating in the Quality Review Program (a committee-appointed review team or "CART")
- b. A team formed by a firm engaged by the firm under review (a firm review)
- c. A team formed by an association of CPA firms that is authorized to form such teams (an association review)—This is available for On-Site Reviews only.

## Committee-Appointed Review Teams

.15 Periodically, usually in November, the AICPA will ask managing partners, managing shareholders, and proprietors of enrolled firms to nominate individuals for service as a reviewer. Each proposed reviewer will be asked to submit a resume form (see Exhibit 3). Individuals who are included in the bank of reviewers will be asked to update their resume forms annually (see Exhibit 9).

.16 Announcement of the above actions will be published in *The CPA Letter* so that other interested and qualified parties can submit profile information.

.17 The information submitted on the resume forms will be contained in the master reviewer data file maintained by the AICPA and will be available to participating state CPA societies.

## Firm Reviews

.18 Periodically, usually in November, the AICPA will ask the managing partners, managing shareholders, and proprietors of enrolled firms to indicate whether their firms, including which offices of their firms, would accept engagements to perform quality reviews of other firms. Each firm will be asked to complete a reviewing firm interest form which will include, among other things, the locations of the offices of the firm that would be interested in conducting quality reviews (see Exhibit 4).

.19 The information submitted will be included in a master reviewing firm data bank maintained by the AICPA and will be available to participating state CPA societies. Upon request, firms may obtain a listing of the firms located in a particular geographic area that are included in the data bank. The inclusion of a name on a listing does not constitute an endorsement of the listed firm or a team selected therefrom. After a team is formed by a firm engaged to perform a review, the arrangements will be reviewed by the entity administering the review.

### **Associations of CPA Firms**

.20 A list of associations of CPA firms that have been authorized to arrange quality reviews for its members will be maintained. This list will be periodically updated. Section QRP 8000 of this manual discusses the guidelines for association involvement in the quality review program.

## **Review Team Working Papers**

### **General**

.21 Working papers must be prepared by the review team to document the work performed and the findings and conclusions reached on on-site and off-site quality reviews. Working papers, including engagement review checklists, should not name or otherwise identify the reviewed firm's clients.

.22 In performing quality reviews, review teams must complete *all* relevant programs and checklists issued by the AICPA Quality Review Executive Committee in a professional manner. Failure to do so creates a presumption that the review has not been performed in conformity with the standards governing the program.

### **Submission of Working Papers**

.23 Within thirty days of the date of an on-site quality review exit conference, the team captain should submit to the entity administering the review copies of the report and letter of comments, if any, and the working papers specified in the checklists issued by the Quality Review Executive Committee.

.24 Other working papers for on-site firm reviews should be retained by the reviewing firm. Other working papers for on-site association reviews should be retained by the respective association. Therefore, a review team captain should notify the entity administering the review of when the on-site quality review working papers will be available for review and where they are being held by submitting a properly completed review completion form (Appendix B to the Team Captain Checklist—On-Site Quality Reviews).

.25 Within thirty days of the completion of an off-site quality review, the reviewer should submit a copy of the report, the review completion form, and all working papers prepared on the review to the entity administering the review.

.26 When the timing guidelines discussed above are not met, the administering entity's staff or a member of the applicable quality review committee should determine the reasons for the delay and act accordingly. If, in their opinion, after consultation with the chairman of the applicable quality review committee—

- a. The delay arises from an unresolved problem or disagreement in the review, an attempt should be made to resolve the matter.
- b. The delay arises from a failure to perform the quality review in a timely, professional manner, the applicable quality review committee should decide at its next meeting whether to file a complaint against the quality reviewer with the AICPA Professional Ethics Division and the applicable state CPA society's professional ethics committee, citing violation of Article V, Due Care of the AICPA Code of Professional Conduct. (This article states: "A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.")



- c. The delay arises from a failure by the reviewed firm to cooperate with the reviewer, the administering entity's quality review committee should decide at its next meeting whether to refer the matter to the AICPA Quality Review Executive Committee; in these instances, the Quality Review Executive Committee will decide whether to begin taking actions leading to the termination of the firm from the quality review program.

## **Working Paper Retention Policies**

.27 All working papers, reports, and letters prepared during a quality review, with the exception of those described in paragraphs .28 and .29 below, should be retained by the entity that formed the review team until ninety days after the AICPA or state quality review committee has issued a letter accepting the quality review report, and, if applicable, the letter of comments and the response thereto, unless the committee indicates that the working papers should be retained for a longer period of time because, for example, the firm has been required to take certain corrective, remedial actions or the committee believes that it needs to further monitor the activities of the firm.

.28 The following quality review documents should be retained from an on-site review until the subsequent review required of the firm or until the time for such review has elapsed:

- a. The quality review report.
- b. The letter of comments and the firm's response thereto, if applicable.
- c. The letter accepting the quality review report and, if applicable, the letter of comment and the firm's response.

.29 The following quality review documents should be retained from an off-site review until the subsequent review required of the firm or until the time for such review has elapsed:

- a. The quality review report.
- b. The firm's response to the quality review report, if applicable.
- c. The letter accepting the quality review report and the firm's response, if applicable.

.30 All working papers will be subject to oversight or review by the administering entity, the AICPA Quality Review Executive Committee, or other bodies that the Committee may designate, including their staff.

.31 All working papers, notes, or other documentation prepared by a participating state CPA society in connection with the scheduling, performance, or acceptance of reviews are also subject to oversight.

## **Submission of Quality Review Documents**

.32 Firms enrolled in the quality review program are required under paragraph 14 of the Standards for Performing and Reporting on Quality Reviews to arrange and schedule their reviews in compliance with the administrative procedures established by the entities administering the reviews and to cooperate with those entities in all matters related to the review.

.33 Within thirty days of receiving the report and letter of comments, if any, the reviewed firm should submit a copy of the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments to the entity administering the review.

.34 The AICPA Quality Review Executive Committee has adopted resolutions (see Exhibits 5 through 7) that provide procedures for dropping or terminating the enrollment of a firm from the quality review program for failure to file with the entity administering the firm's review information concerning the arrangements for a mandatory review, including providing the reviewer with information to plan and perform the review or submitting selected financial statements and accountant's reports along with specified information and representa-

tions about the engagements; to have a review by the required date; to file the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments or to cooperate with the entity administering the firm's review, including completion of required corrective or monitoring actions.

## **Fees and Expenses**

**.35** Entities administering quality reviews (that is, the AICPA and participating state societies) shall be authorized to establish dues or registration fees within its jurisdiction to fund the administration of the program.

**.36** The AICPA Quality Review Executive Committee has adopted a resolution (see Exhibit 6) that provides procedures for dropping a firm from the quality review program for failure to pay fees charged by state CPA societies for the administration of the quality review program.

**.37** Entities administering quality reviews shall also be authorized to establish the rates at which reviewers will be paid for service on review teams they form. While the rates established may be stratified based on the size and nature of the reviewed firm, the rates should be used uniformly throughout the jurisdiction for review teams it arranges. Firms that perform reviews and associations of CPA firms that assist their members in arranging such reviews may set their own rates in consultation with the reviewed firm.

**.38** A firm that arranges for the AICPA, a participating state society, another firm, or an association of CPA firms to perform its quality review is obligated to pay in full the fees and expenses of the review team to which it agreed prior to the review.

**.39** The AICPA Quality Review Executive Committee has adopted a resolution that provides procedures for firms that fail to pay the fees and expenses of a review team formed by a participating state CPA society or the AICPA Quality Review Division (see Exhibit 8). In applying these procedures, the entity that formed the review team should notify the reviewed firm in writing (by certified mail) that it has failed to pay the fees and expenses. The notice—

- a. Should not be mailed to a reviewed firm until at least 90 days after the firm has been billed for the services.
- b. Should indicate that the administering entity's quality review committee will be asked to review the situation, including the reasons for the nonpayment, and decide whether to recommend that the AICPA Quality Review Executive Committee drop the firm from the quality review program due to this failure pursuant to the established procedures.
- c. Should indicate that the reviewed firm has 30 days from the date of the notice in which to pay the unpaid fees and expenses.
- d. Should include a copy of the resolution in Exhibit 8.

**.40** In deciding on whether to request that a firm be dropped from the quality review program, consideration should be given to whether a disagreement exists between the reviewer, the reviewed firm, and/or the Committee.

## Exhibit 1

## TIMING OF REVIEWS

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Sole practitioners					
Without audits				X	X
With audits			X	X	
Two to ten professionals					
Without audits			X	X	
With audits		X	X	X	
Over ten professionals					
Without audits		X			
With audits	X	X			



## Exhibit 2

## SAMPLE ENGAGEMENT LETTER

[Letterhead of Administering Entity for CART Reviews]

(Date)

(Firm Contact)

(Firm Name)

Re: Review Number \_\_\_\_\_

Dear (Mr. or Ms. Firm Contact):

You have requested that a review team be appointed to perform a quality review of your firm's accounting and auditing practice. We are willing to arrange for such an engagement, subject to the terms and conditions set forth in this letter.

The attachment to this letter contains information on the review team. If any changes need to be made in the review team, we will notify you immediately and ask you to authorize those changes.

**Scope of the Review**

The review will be performed in accordance with the *Standards for Performing and Reporting on Quality Reviews*, issued by the AICPA Quality Review Executive Committee. These standards require, among other things, that the review be conducted in compliance with the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information concerning the review firm or any of its clients or personnel, including the findings of the review, that is obtained as a consequence of the review is confidential. Such information shall not be disclosed by review team members to anyone not involved in carrying out the review or administering the program or used in any way not related to meeting the objectives of the quality review program unless authorized by your firm. Also, no review team member will have contact with clients of your firm.

If it is necessary to obtain the consent of your clients for review of files and records pertaining to them, you will assume the responsibility for obtaining such consent.

**Liability and Subpoena**

You agree not to take, or assist in, any action seeking to hold liable, jointly or singly, us or the review team—including any staff, assistants, committees or the review team's firms—for damages on account of any good faith act or omission or on account of any deficiency in the files overall, unless those damages arise from malice, gross negligence, or recklessness. Also, you agree not to subpoena any of those persons or organizations, or otherwise call them to testify, in any action to which they are not a party, with respect to any of the work performed, reports made, or information acquired or developed in connection with this review. However, this provision shall not apply if some other person has done that successfully and you conclude you must do so in response.

**Timing of Review and Fees**

We anticipate that the review will begin on (*date of commencement*) and take between \_\_\_\_\_ and \_\_\_\_\_ hours to complete. However, this is only an estimate and reviewer time will be billed at actual.

The billing rates are set forth in the attachment. Your firm will also be expected to pay for all reviewer out-of-pocket expenses and the administrative fees established by the American Institute of Certified Public Accountants for the scheduling of the review and the evaluation of the review results. The administrative fee structure is also set forth in an attachment to this letter.<sup>1</sup>

Invoices are due upon presentation. Normally, fees will be billed after the report is issued on the review. However, under certain circumstances, progress billings may be rendered.<sup>2</sup>

\* \* \* \* \*

If you accept these terms and conditions, please sign and return the enclosed copy of this letter. This letter, including the attachments, will then become a contract between you and us.

Sincerely,

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

We consent to the terms and conditions described in this letter.

\_\_\_\_\_  
Firm To Be Reviewed  
  
\_\_\_\_\_  
By

\_\_\_\_\_  
Date  
  
\_\_\_\_\_  
Position

<sup>1</sup> The AICPA or state society may insert the information needed in this sentence, delete it entirely, or revise it, depending on the fee structure adopted.

<sup>2</sup> State societies may wish to revise this paragraph.

Attachment to Engagement Letter Dated \_\_\_\_\_

**REVIEW TEAM CAPTAIN**

Name:

AICPA Member Number:

Firm Name:

AICPA Firm Number:

Address:

Telephone Number:

Position:

Billing Rate on the Review: \$ /hour

Years of Accounting and Auditing Experience:

Areas of Experience:

Size of Reviewer's Firm:

Date of Firm's Last Review (if any):

Practice Monitoring Program(s) to Which the Reviewer's Firm Currently Belongs:



**REVIEW TEAM MEMBER 1 \***

Name:

AICPA Member Number:

Firm Name:

AICPA Firm Number:

Address:

Telephone Number:

Position:

Billing Rate on the Review: \$ /hour

Years of Accounting and Auditing Experience:

Areas of Experience:

Size of Reviewer's Firm:

Date of Firm's Last Review (if any):

Practice Monitoring Program(s) to Which the Reviewer's Firm Currently Belongs:

---

\* Print out this information for each review team member.

## Exhibit 3

<b>AICPA</b> _____	
<b>REVIEWER RESUME FORM</b>	
1. Applicant's Name Mr. <input type="checkbox"/> Ms. <input type="checkbox"/> <div style="display: flex; justify-content: space-between; align-items: flex-end;"> <div style="border-bottom: 1px solid black; width: 30%; text-align: center; font-size: 8px;">FIRST</div> <div style="border-bottom: 1px solid black; width: 5%; text-align: center; font-size: 8px;">MI</div> <div style="border-bottom: 1px solid black; width: 60%; text-align: center; font-size: 8px;">LAST</div> </div>	
2. AICPA Member Number (obtain from AICPA Member Card) <span style="border-bottom: 1px solid black; display: inline-block; width: 100px;"></span>	
3. Firm or Organization <div style="border-bottom: 1px solid black; height: 1.2em; width: 100%;"></div>	
AICPA Firm Number (if applicable) <span style="border-bottom: 1px solid black; display: inline-block; width: 100px;"></span>	
4. Mailing Address <div style="border-bottom: 1px solid black; height: 1.2em; width: 100%;"></div> <div style="display: flex; justify-content: space-between; align-items: flex-end; font-size: 8px;"> <div style="border-bottom: 1px solid black; width: 40%; text-align: center;">CITY</div> <div style="border-bottom: 1px solid black; width: 10%; text-align: center;">ST</div> <div style="border-bottom: 1px solid black; width: 40%; text-align: center;">ZIP</div> </div>	
5. Business Telephone Number ( <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> ) <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> - <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> Ext. <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> Facsimile Number ( <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> ) <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> - <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> Ext. <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span> <span style="border-bottom: 1px solid black; display: inline-block; width: 20px;"></span>	
6. Hourly billing rate \$ <span style="border-bottom: 1px solid black; display: inline-block; width: 30px;"></span>	
<b>IF YOU ARE A MEMBER IN PUBLIC PRACTICE, PLEASE ANSWER THE FOLLOWING QUESTIONS. IF YOU ARE NOT IN PUBLIC PRACTICE, PLEASE SKIP TO QUESTION 14.</b>	
7. Firm's Federal I.D. Number <span style="border-bottom: 1px solid black; display: inline-block; width: 100px;"></span>	
8. Association(s) to which your firm belongs (use code on page 5 or mark 00 if "None" or 99 for another association which has not been listed) <span style="border-bottom: 1px solid black; display: inline-block; width: 50px;"></span> <span style="border-bottom: 1px solid black; display: inline-block; width: 50px;"></span> <span style="border-bottom: 1px solid black; display: inline-block; width: 50px;"></span> If you marked 99, please indicate the name of the association. <div style="border-bottom: 1px solid black; height: 1.2em; width: 100%;"></div>	
9. Total number of professionals, including partners, proprietors and shareholders (for this purpose professionals are all CPAs and other individuals expected to seek that status) <div style="display: flex; flex-wrap: wrap; justify-content: space-between; font-size: 8px;"> <div><input type="checkbox"/> A One</div> <div><input type="checkbox"/> C 6 to 10</div> <div><input type="checkbox"/> E 20 to 49</div> <div><input type="checkbox"/> G 100 or more</div> <div><input type="checkbox"/> B 2 to 5</div> <div><input type="checkbox"/> D 11 to 19</div> <div><input type="checkbox"/> F 50 to 99</div> </div>	
10. Are you currently practicing at a supervisory level in the accounting and auditing function of your firm? <input type="checkbox"/> Yes <input type="checkbox"/> No (If no, please skip to Question 15.)	
11. Are you currently practicing as (please check one) <div style="display: flex; justify-content: space-between; font-size: 8px;"> <div><input type="checkbox"/> Individual practitioner</div> <div><input type="checkbox"/> Manager or equivalent supervisory position</div> </div> <div style="display: flex; justify-content: space-between; font-size: 8px;"> <div><input type="checkbox"/> Partner or shareholder</div> <div><input type="checkbox"/> Senior or other staff accountant</div> </div>	
12. Are you currently performing auditing engagements? <input type="checkbox"/> Yes <input type="checkbox"/> No	
13. How many years experience do you have in public practice in the accounting and auditing function? <span style="border-bottom: 1px solid black; display: inline-block; width: 30px;"></span> (Please skip to Question 15.)	
11/92	- 1 -
423-9807	

## Exhibit 3—Continued

<b>IF YOU ARE NOT IN PUBLIC PRACTICE, PLEASE ANSWER THE FOLLOWING QUESTIONS:</b>		
<p>14. Do you have at least five years experience within the last ten years in the accounting or auditing function of a firm enrolled in an AICPA approved practice monitoring program, culminating in a position as a proprietor, partner shareholder, or as a manager or person with equivalent supervisory responsibilities? If yes, please indicate:</p> <p>Firm Name _____</p> <p>AICPA Firm Number <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 15px; height: 15px;"></span></p>	<b>Yes</b>	<b>No</b>
	<input type="checkbox"/>	<input type="checkbox"/>
<b>QUESTIONS FOR ALL APPLICANTS</b>		
<p>15. Do you possess a current license to practice as a certified public accountant?</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>16. Have you performed any of the following types of reviews during the last three years:</p> <p>a. Peer review under the Division for CPA Firms (hereafter, "peer reviews")</p> <p>b. On-site quality review under the AICPA Quality Review Program</p> <p>c. Off-site report review under the Division for CPA Firms</p> <p>d. Off-site quality review under the AICPA Quality Review Program</p>	<input type="checkbox"/>    	<input type="checkbox"/>    
<p>17. Have you attended a reviewers' training course on conducting peer reviews?</p> <p>If yes, please indicate the name of the last peer review course attended using the codes on page 5 or 99 for a course which has not been listed, the date attended, and the location of the course.</p> <p>Course Code <span style="border: 1px solid black; display: inline-block; width: 20px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 20px; height: 15px;"></span> Date Attended ____ / ____ / ____</p> <p>City <span style="border: 1px solid black; display: inline-block; width: 100px; height: 15px;"></span> State <span style="border: 1px solid black; display: inline-block; width: 30px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 30px; height: 15px;"></span></p> <p>If you marked 99 for the course code, please indicate the name and author of the course attended.</p> <p>Name _____</p> <p>Author _____</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>18. Have you attended a reviewers' training course on conducting quality reviews?</p> <p>If yes, please indicate the name of the last quality review course attended using the codes on page 5 or 99 for a course which has not been listed, the date attended, and the location of the course.</p> <p>Course Code <span style="border: 1px solid black; display: inline-block; width: 20px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 20px; height: 15px;"></span> Date Attended ____ / ____ / ____</p> <p>City <span style="border: 1px solid black; display: inline-block; width: 100px; height: 15px;"></span> State <span style="border: 1px solid black; display: inline-block; width: 30px; height: 15px;"></span> <span style="border: 1px solid black; display: inline-block; width: 30px; height: 15px;"></span></p> <p>If you marked 99 for the course code, please indicate the name and author of the course attended.</p> <p>Name _____</p> <p>Author _____</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>19. Are you willing to serve on a committee-appointed review team for the:</p> <p>a. Division for CPA Firms</p> <p>b. Quality Review Program</p>	<input type="checkbox"/>  	<input type="checkbox"/>  



## Exhibit 3—Continued

QUESTIONS FOR ALL APPLICANTS		
	Yes	No
20. Are you willing to perform off-site reviews of compilation and review reports for the:		
a. Division for CPA Firms	<input type="checkbox"/>	<input type="checkbox"/>
b. Quality Review Program	<input type="checkbox"/>	<input type="checkbox"/>
21. Are you willing to perform consulting reviews for the:		
a. Division for CPA Firms	<input type="checkbox"/>	<input type="checkbox"/>
b. Quality Review Program	<input type="checkbox"/>	<input type="checkbox"/>
22. Please indicate on page 4 all of the practice areas and industries in which you believe you have sufficient familiarity to be qualified as a reviewer.		
* * * * *		
<p>If hired to perform a review under one of the AICPA practice-monitoring programs, I agree to perform and report on that review in accordance with the applicable program's standards and to cooperate fully with the entity administering the review in all matters related to the review.</p>		
SIGNATURE: _____		DATE: _____

## Exhibit 3—Continued

## AREAS OF EXPERIENCE

Please indicate all of the practice areas and industries in which you believe you have sufficient familiarity to be qualified as a reviewer, including 9 if you are currently active in auditing.

## PRACTICE AREAS

- |  |  |
|--|--|
| <input type="checkbox"/> 1 SEC Rules and Regulations                         | <input type="checkbox"/> 195 Franchisors   |
| <input type="checkbox"/> 2 Reviews and Compilations                          | <input type="checkbox"/> 200 Fire and Casualty Insurance Companies   |
| <input type="checkbox"/> 3 Examinations of Prospective Financial Information | <input type="checkbox"/> 205 Government Contractors  |
| <input type="checkbox"/> 4 Audits of Personal Financial Statements           | <input type="checkbox"/> 210 Health Maintenance Organizations  |
| <input type="checkbox"/> 5 Audits Under Government Auditing Standards        | <input type="checkbox"/> 215 Hospitals and Nursing Homes   |
| <input type="checkbox"/> 6 Audits of Federal Financial Assistance Programs   | <input type="checkbox"/> 220 Hotels and Restaurants  |
| <input type="checkbox"/> 7 Audits of Financial Institutions                  | <input type="checkbox"/> 222 HUD   |
| <input type="checkbox"/> 8 Audits of REA Borrowers                           | <input type="checkbox"/> 225 Insurance Agents and Brokers  |
| <input type="checkbox"/> 9 Other Audits                                      | <input type="checkbox"/> 230 Investment Companies and Mutual Funds   |
| <input type="checkbox"/> 10 Audits of Employee Benefit Plans                 | <input type="checkbox"/> 235 Leasing Companies   |
|  | <input type="checkbox"/> 240 Life Insurance Companies  |
|  | <input type="checkbox"/> 245 Manufacturing   |
|  | <input type="checkbox"/> 250 Mortgage Banking  |
|  | <input type="checkbox"/> 255 Motor Carriers  |
|  | <input type="checkbox"/> 260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations) |
|  | <input type="checkbox"/> 265 Employee Benefit Plans (including ERISA audits)                                     |
|  | <input type="checkbox"/> 268 Personal Financial Statements   |
|  | <input type="checkbox"/> 270 Professional Services (Doctors, Lawyers, Architects, etc.)                          |
|  | <input type="checkbox"/> 275 Publishing  |
|  | <input type="checkbox"/> 280 Real Estate Brokerage   |
|  | <input type="checkbox"/> 285 Real Estate Development   |
|  | <input type="checkbox"/> 290 Real Estate Management  |
|  | <input type="checkbox"/> 295 Real Estate Investment Trusts   |
|  | <input type="checkbox"/> 300 Reinsurance Companies   |
|  | <input type="checkbox"/> 305 Retail Trade  |
|  | <input type="checkbox"/> 310 Savings and Loan Associations   |
|  | <input type="checkbox"/> 315 Small Loan Companies  |
|  | <input type="checkbox"/> 320 School Districts  |
|  | <input type="checkbox"/> 325 State and Local Government  |
|  | <input type="checkbox"/> 330 Telephone Companies   |
|  | <input type="checkbox"/> 335 Utilities   |
|  | <input type="checkbox"/> 340 Wholesale Distributors  |

## INDUSTRIES

- |  |  |
|--|--|
| <input type="checkbox"/> 105 Advertising                                 |  |
| <input type="checkbox"/> 110 Agricultural, Livestock, Forestry & Fishing |  |
| <input type="checkbox"/> 115 Airlines                                    |  |
| <input type="checkbox"/> 120 Auto Dealerships                            |  |
| <input type="checkbox"/> 125 Banking                                     |  |
| <input type="checkbox"/> 130 Broadcasting and Entertainment              |  |
| <input type="checkbox"/> 135 Brokers and Dealers in Securities           |  |
| <input type="checkbox"/> 140 Brokers and Dealers in Commodities          |  |
| <input type="checkbox"/> 145 Casinos                                     |  |
| <input type="checkbox"/> 150 Colleges and Universities                   |  |
| <input type="checkbox"/> 155 Common Interest Realty Associations         |  |
| <input type="checkbox"/> 160 Computer Software Development and Sales     |  |
| <input type="checkbox"/> 165 Construction Contractors                    |  |
| <input type="checkbox"/> 170 Continuing Care Retirement Communities      |  |
| <input type="checkbox"/> 175 Credit Unions                               |  |
| <input type="checkbox"/> 180 Extractive Industries—Oil and Gas           |  |
| <input type="checkbox"/> 185 Extractive Industries—Mining                |  |
| <input type="checkbox"/> 190 Finance Companies                           |  |

## PLEASE RETURN THE COMPLETED FORM TO:

American Institute of CPAs  
 Quality Review Division  
 Harborside Financial Center  
 201 Plaza III  
 Jersey City, NJ 07311-3881

## Exhibit 3—Continued

## ASSOCIATION CODES

<b>01</b>	AFAI	Accounting Firms Associated Inc.	<b>17</b>	LSMG	Lone Star Management Group
<b>02</b>	AGI	Accounting Group International	<b>18</b>	MACPA	Montana Association of CPAs
<b>03</b>	ACPA	ACPA International	<b>19</b>	NACF	National Associated CPA Firms
<b>04</b>	TAG	The American Group of CPA Firms	<b>20</b>	BKR	BKR International
<b>05</b>	AAFI	Associated Accounting Firms International	<b>21</b>	NCCPAP	National Conference of CPA Practitioners
<b>06</b>	ARAF	Associated Regional Accounting Firms	<b>22</b>	SAAF	Southern Association of Accounting Firms
<b>07</b>	ABCF	National Association of Black CPA Firms	<b>23</b>	SWAG	The Southern & Western Accounting Group
<b>08</b>	CALGAF	California Group of Accounting Firms	<b>24</b>	TMG	Texas Management Group
<b>10</b>	CACF	Continental Association of CPA Firms, Inc.	<b>25</b>	VGLCF	The Virginia Group of Local CPA Firms, Inc.
<b>11</b>	CPAA	CPA Associates, Inc.	<b>26</b>	WAAF	Western Association of Accounting Firms
<b>12</b>	CPAN	CPA Network	<b>27</b>	CPAAV	CPA Affiliates of Virginia, Ltd.
<b>13</b>	CPAMS	CPA Management Systems, Inc.	<b>28</b>	NETA	Network of Accountants
<b>14</b>	DFK	DFK Accountancy Group	<b>29</b>	MRI	Moores Rowland International
<b>15</b>	IAI	Independent Accountants International	<b>30</b>	CORP	CORPACCT CPA Affiliates, Inc.
<b>16</b>	IGAF	The International Group of Accounting Firms	<b>31</b>	SIA	Summit International Associates, Ltd.
			<b>32</b>	NRI	NR International

## PRACTICE-MONITORING PROGRAM TRAINING COURSES

<b>Code</b>	<b>Course Developer</b>	<b>Course Title</b>
<b>01*</b>	AICPA	How to Conduct a Review Under the AICPA Practice-Monitoring Programs (first offered in 1990 and after)
<b>02*</b>	AICPA	Current Issues in Practice Monitoring: An Advanced Guide for Reviewers (first offered in 1991)
<b>03</b>	AICPA	How to Conduct a Peer Review/Guide for Conducting Peer Reviews (last offered in 1989)
<b>04</b>	AICPA	How to Conduct a Quality Review (offered in 1989 only)
<b>05</b>	Florida Institute of CPAs	Quality Review: How to Conduct One (offered in Florida only)
<b>99</b>		Other Reviewer Training Course (8 hours or more)

**\*If you attended courses coded as 01 or 02, check "Yes" in questions 17 and 18 and provide the requested information.**

## Exhibit 4



**American Institute of Certified Public Accountants**

## REVIEWING FIRM INTEREST FORM

If one or more of the branches of your firm is interested in performing peer reviews or quality reviews of other firms enrolled in an Institute-approved practice-monitoring program, please provide the following information for each branch that wishes to be included in the AICPA reviewing firm data bank. Feel free to make as many copies of this form as needed. The information included on this form will be provided to other firms, who request the names of firms located in a particular geographic area, that are interested in performing reviews.

### 1. Firm Number

--	--	--	--	--	--	--	--

Branch No.

--	--	--

2. Firm Name

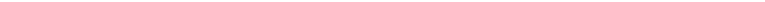
[illegible]

### 3. Branch Address

CITY STATE ZIP

4. Person to contact at the branch regarding reviews:

Mr. ☐ Ms. ☐



Telephone Number ( ) - Ext.

6. Is the branch willing to perform peer reviews or quality reviews under the following programs:

Yes No

#### a. Private Companies Practice Section

11

b. SEC Practice Section

110

### c. Quality Review Program

11

6. Signature \_\_\_\_\_ Date \_\_\_\_\_

**Please return this form to:**

American Institute of Certified Public Accountants  
Quality Review Division  
Harborside Financial Center  
201 Plaza III  
Jersey City, NJ 07311-3881



## Exhibit 5

## AICPA QUALITY REVIEW EXECUTIVE COMMITTEE

*(Resolution adopted January 9, 1990 and revised December 4, 1990)*

WHEREAS, a firm enrolled in the quality review program is required to have a quality review once every three years; and

WHEREAS, a firm enrolled in the quality review program is required under paragraph 14 of the *Standards for Performing and Reporting on Quality Reviews* to cooperate with the state CPA society authorized to administer its review and with the AICPA Quality Review Division in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: That enrollment of a firm in the quality review program will be terminated by the AICPA Quality Review Executive Committee, without a hearing for disciplinary purposes, thirty days after the AICPA Quality Review Division notifies the firm by certified mail that the firm has failed (1) to file the report, letter of comments, if any, or its response to matters discussed in the report or letter of comments with the entity administering its review, or (2) to cooperate with that entity in all matters related to the review, including completion of required corrective or monitoring actions, if such failure(s) is not sooner corrected; however, the Committee may at its discretion decide to hold such a hearing and, whether a hearing is held or not, the firm will have the right to appeal to the AICPA Joint Trial Board; and

BE IT FURTHER RESOLVED: That, pursuant to paragraph 73 of the *Standards for Performing and Reporting on Quality Reviews*, the fact that a firm's enrollment in the AICPA quality review program has been so terminated shall be reported in an AICPA membership periodical.

## Exhibit 6

## AICPA QUALITY REVIEW EXECUTIVE COMMITTEE

(Resolution adopted January 9, 1990 and revised December 4, 1990)

WHEREAS, the members of the American Institute of Certified Public Accountants overwhelmingly approved in January 1988 a requirement that members of the Institute shall engage in the practice of public accounting only with a firm that is enrolled in an Institute-approved practice-monitoring program; and

WHEREAS, the AICPA encouraged state societies of certified public accountants to participate in the administration of the quality review program established by Council pursuant to that membership ballot; and

WHEREAS, the *Plan to Restructure Professional Standards* contemplated that participating state societies would recover their costs and expenses through fees; and

WHEREAS, a firm enrolled in the quality review program is required under paragraph 14 of the *Standards for Performing and Reporting on Quality Reviews* to arrange and schedule their reviews in compliance with the administrative procedures established by the state CPA society authorized to administer its review and by the AICPA Quality Review Division;

NOW, THEREFORE, BE IT RESOLVED: That a firm will be dropped from the quality review program by the AICPA Quality Review Executive Committee, without a hearing for disciplinary purposes, thirty days after the AICPA Quality Review Division notifies the firm by certified mail that the firm has failed (1) to pay fees related to the administration of the program that have been authorized by the governing body of a participating state society or by the Committee, (2) to file requested information with the entity administering the firm's review concerning the arrangements for a mandatory quality review, or (3) to have a quality review by the required date, if such failure(s) is not sooner corrected; however, the Committee may at its discretion decide to hold such a hearing and, whether a hearing is held or not, the firm will have the right to appeal to the AICPA Joint Trial Board.

## Exhibit 7

## AICPA QUALITY REVIEW EXECUTIVE COMMITTEE

(Resolution adopted July 24, 1991 and revised August 5, 1992)

WHEREAS, a firm enrolled in the quality review program is required to have a quality review once every three years; and

WHEREAS, paragraph 37 of the *Standards for Performing and Reporting on Quality Reviews* (the *Standards*) acknowledges that background information will be needed by the reviewer in order to plan an on-site quality review; and

WHEREAS, paragraph 7 in Section 4100 of the *Quality Review Program Manual* provides a list of the types of background information a firm will be expected to provide a reviewer; and

WHEREAS, paragraph 51 of the *Standards* requires a firm having an off-site quality review to submit the selected financial statements and accountant's report to the reviewer or entity administering the review along with specified background information and representations about each engagement;

NOW, THEREFORE, BE IT RESOLVED: that a firm will be dropped from the quality review program by the AICPA Quality Review Executive Committee, without a hearing for disciplinary purposes, thirty days after the AICPA Quality Review Division notifies the firm by certified mail that the firm has (1) failed to provide the reviewer with the information necessary to plan and perform the firm's on-site quality review or (2) failed to submit the selected financial statements and accountant's report to the reviewer or entity administering the review along with specified background information and representations about each engagement, if such information is not sooner provided; however, the Committee may at its discretion decide to hold such a hearing and, whether a hearing is held or not, the firm will have the right to appeal to the Joint Trial Board.

## Exhibit 8

## AICPA QUALITY REVIEW EXECUTIVE COMMITTEE

*(Resolution adopted October 5, 1992)*

WHEREAS, under paragraph 7 of the *Standards for Performing and Reporting on Quality Reviews*, at least one of the proprietors, partners, or shareholders of a firm that seeks to be enrolled in the AICPA quality review program must be a member of the AICPA;

WHEREAS, a firm enrolled in the quality review program is required under paragraph 14 of the *Standards for Performing and Reporting on Quality Reviews* to cooperate with the state CPA society authorized to administer its review and with the AICPA Quality Review Division in all matters related to the review; and

WHEREAS, the Quality Review Executive Committee has determined that submission during the course of a review of a resignation from the quality review program by a firm or submission of a resignation from membership in the AICPA by the sole owner of a firm or by the only partner or shareholder of a firm who is a member of the AICPA because, for example, the firm expects to receive a qualified report or the reviewer has discovered a substandard engagement on which the firm must take some action under applicable professional standards is evidence of such a failure to cooperate;

NOW, THEREFORE, BE IT RESOLVED: That enrollment of a firm in the quality review program will be terminated by the AICPA Quality Review Executive Committee, without a hearing for disciplinary purposes, thirty days after the AICPA Quality Review Division notifies the firm by certified mail that it has not cooperated with the AICPA Quality Review Executive Committee because the firm has submitted a resignation from the quality review program or the sole owner of a firm or the only partner or shareholder of a firm who is a member of the AICPA has submitted a resignation from the AICPA because, for example, the firm expects to receive a qualified report or the reviewer has discovered a substandard engagement on which the firm must take some action under applicable professional standards and that situation is not sooner corrected; however, the Committee may at its discretion decide to hold a hearing and, whether a hearing is held or not, the firm will have the right to appeal to the AICPA Joint Trial Board;

BE IT FURTHER RESOLVED: That, pursuant to paragraph 73 of the *Standards for Performing and Reporting on Quality Reviews*, the fact that a firm's enrollment in the AICPA quality review program has been so terminated shall be reported in an AICPA membership periodical.

## Exhibit 9

## AICPA QUALITY REVIEW EXECUTIVE COMMITTEE

*(Resolution adopted January 21, 1993)*

WHEREAS, under paragraph 18 of the *Standards for Performing and Reporting on Quality Reviews*, a team captain must have at least five years' experience in the practice of public accounting in the accounting and auditing function and must have completed a training course that meets the requirements established from time to time by the AICPA Quality Review Executive Committee in order to qualify for service as a reviewer;

NOW, THEREFORE BE IT RESOLVED: That, effective for reviews performed on or after April 1, 1994, a team captain on an on-site quality review must have completed during the five-year period prior to the commencement of the review a training course that meets the requirements established by the Quality Review Executive Committee.

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## QRP Section 3000

# STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### NOTICE TO READERS

Members of the American Institute of Certified Public Accountants who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as proprietors, partners, shareholders, or employees of firms enrolled in an approved practice-monitoring program in order to retain their membership in the Institute beyond specified periods.

The AICPA Board of Directors has established a Quality Review Division within the Institute, which is governed by an executive committee having senior technical committee status with authority to establish and conduct a quality review program in cooperation with state CPA societies that elect to participate.

A firm enrolled in the AICPA quality review program or a member firm of the AICPA Division for CPA Firms is deemed to be enrolled in an approved practice-monitoring program (an *enrolled firm*). (See sections 2.2.3 and 2.3.4 of the bylaws of the AICPA and the implementing Council resolutions under those sections.)

The Quality Review Executive Committee has issued these standards for performing and reporting on all reviews conducted under the quality review program. These standards are applicable to firms enrolled in that program (the term *firms* includes sole practitioners), to individuals and firms who perform and report on such reviews, to state CPA societies that participate in the administration of the program, to associations of CPA firms that assist their members in arranging and carrying out quality reviews, and to the AICPA Quality Review Division itself.

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# QRP Section 3000

## *Standards for Performing and Reporting on Quality Reviews*

### Introduction

.01 Quality in the performance of accounting and auditing engagements by AICPA members is the goal of the quality review program. The program seeks to achieve its goal through education and remedial, corrective actions. This goal serves the public interest and, at the same time, enhances the significance of AICPA membership.

.02 Participants in the quality review program need to—

- a. Understand what is necessary for quality practice.
- b. Establish appropriate quality control policies and procedures.
- c. Have an independent review of their accounting and auditing practices at least every three years.<sup>1</sup>
- d. Take remedial, corrective actions as needed.

.03 Statement on Quality Control Standards No. 1, *System of Quality Control for a CPA Firm*, issued in November 1979, requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It identifies nine elements of quality control and states that a firm shall consider each of those elements, to the extent applicable to its practice, in establishing its quality control policies and procedures. In that connection, the statement recognizes that the nature and extent of a firm's quality control policies and procedures depend on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations.

.04 The objectives of the quality review program are achieved through the performance of reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform audits of historical or prospective financial statements (*audits* of prospective financial statements are referred to as *examinations* in relevant professional standards) will have on-site reviews, while firms that provide only compilation or review services will have an off-site review of selected reports on those services, unless they elect to have an on-site quality review. Firms enrolled in the program that do not provide those services will not be reviewed.

.05 Upon completing a quality review, the review team prepares a written report and, when applicable in an on-site quality review, a letter of comments in accordance with these standards. The reviewed firm transmits these documents and, when applicable, a letter outlining its response to the review team's findings and recommendations to the entity administering its review (a state CPA society or the AICPA Quality Review Division). These documents are not public documents, but the reviewed firm may make them available to the public if it so chooses after they have been formally accepted by the entity administering the review as meeting the requirements of the quality review program.

.06 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high-quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed firm is expected to take appropriate actions in response to significant deficiencies in its quality controls or in its compliance with them. These actions will be positive and remedial. Disciplinary actions

<sup>1</sup> The initial review under the program will be phased in based on the size of the firm and the nature of its practice over the five-year period from 1989 to 1993. However, firms that perform audits subject to *Government Auditing Standards*, issued by the U.S. General Accounting Office (the "yellow book"), should be aware that they must have "an external quality control review within three years from the effective date of the [GAO] standards," which is January 1, 1989.

(that is, actions that can result in the termination of a firm's participation in the program and the subsequent loss of membership in the AICPA by its partners or shareholders and its employees) will be taken only for a failure to cooperate or for deficiencies that are so serious that remedial or corrective actions are not suitable.

## General Considerations

### Enrollment Requirements

.07 At least one of the proprietors, partners, or shareholders of a firm that seeks to be enrolled in the AICPA quality review program must be a member of the AICPA.

### Confidentiality

.08 A quality review must be conducted in compliance with the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information concerning the reviewed firm or any of its clients or personnel, including the findings of the review, that is obtained as a consequence of the review is confidential. Such information should not be disclosed by review team members to anyone not involved in carrying out the review or administering the program or used in any way not related to meeting the objectives of the program.

.09 It is the responsibility of the reviewed firm to take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy do not clearly provide an exemption from confidentiality requirements when quality reviews are undertaken.<sup>2</sup> In all cases, the reviewed firm may advise its clients that it will have a quality review and that accounting or auditing work for that client may be subject to review.

### Independence

.10 Independence must be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review. The concepts in the AICPA Code of Professional Conduct should be considered in making independence judgments. In that connection, the specific requirements set forth in appendix A apply.

### Conflict of Interest

.11 A reviewing firm or an individual participating in carrying out or administering a review must not have a conflict of interest with respect to the reviewed firm or those of its clients whose engagements are selected for review. Such firms and individuals should avoid contacts with clients or personnel of the reviewed firm that could be asserted to be evidence of a conflict of interest.

### Competence

.12 A review team conducting an on-site quality review must have current knowledge of the type of practice to be reviewed. Individuals reviewing engagements, on-site or off-site, must have a familiarity with the specialized industry practices, such as those found in the banking and insurance industries, of the clients that should be selected for review.

### Due Professional Care

.13 Due professional care must be exercised in performing and reporting on the review. This imposes an obligation on all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner similar to that of an independent auditor examining financial statements.

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<sup>2</sup> The AICPA maintains a list of states, available upon request, that do not clearly provide such an exemption. That list and related guidance material for reviewed firms have been provided to state CPA societies.



## Administration of Reviews

.14 Reviews intended to meet the requirements of the AICPA quality review program must be carried out in conformity with these standards under the supervision of a state CPA society authorized by the AICPA Quality Review Executive Committee to administer quality reviews or under the supervision of the AICPA Quality Review Division. This imposes an obligation on reviewed firms to arrange and schedule their reviews in compliance with the administrative procedures established by those entities and to cooperate with those entities in all matters related to the review.

## Organization of the Review Team

.15 A review team may be formed by a firm engaged by the firm under review (a *firm review*), by a state CPA society participating in the program, or by the AICPA Quality Review Division (a *committee-appointed review team*). Also, the AICPA Quality Review Executive Committee may authorize an association of CPA firms to assist its members by organizing review teams to carry out on-site, but not off-site, quality reviews (an *association review*).

.16 A review team comprises one or more individuals, depending upon the size and nature of the reviewed firm's practice. One member of the review team is designated the team captain. That individual is responsible for organizing and conducting the review, for communicating the review team's findings to the reviewed firm and to the entity administering the review (a participating state CPA society or the AICPA Quality Review Division),<sup>3</sup> and for preparing the report and, if applicable, the letter of comments on the review. Team captains on on-site and off-site quality reviews should test the work performed by other reviewers to the extent deemed necessary in the circumstances.

## Qualifications for Service as a Reviewer

### General

.17 Performing and reporting on quality reviews requires the exercise of professional judgment by peers. Accordingly, an individual serving as a reviewer (whether for on-site or off-site quality reviews) must be a member of the AICPA licensed to practice as a certified public accountant and must possess current knowledge of applicable professional standards.

### On-Site Quality Reviews

.18 Reviewers participating in on-site quality reviews must be currently active in public practice at a supervisory level in the accounting and auditing function<sup>4</sup> of a firm enrolled in an approved practice-monitoring program (that is, a firm enrolled in the AICPA quality review program or a firm that is a member of the AICPA Division for CPA Firms) as one of the following:

- a. A proprietor, partner, or shareholder
- b. A manager or person with equivalent supervisory responsibilities

All on-site review team members must have at least five years' experience in the practice of public accounting in the accounting and auditing function. A team captain must be a proprietor, partner, or shareholder of an enrolled firm and must have completed a training course that meets requirements established from time to time by the AICPA Quality Review Executive Committee. A team captain must also be associated with a firm that has received

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<sup>3</sup> The plan of administration adopted by an association of CPA firms that assists its members in arranging and carrying out quality reviews may provide that the association will communicate the review team's findings to the entity administering the review.

<sup>4</sup> The Quality Review Executive Committee recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. This standard is not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a quality review with professional expertise.

an unqualified report on its system of quality control within the previous three years.<sup>5</sup> A team captain should have a familiarity gained through personal experience with the types of problems encountered by the reviewed firms.

.19 An individual who serves as the team captain for two successive reviews of the same firm may not serve in that capacity for the firm's next quality review.

.20 Where required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas who need not be CPAs may assist the review team in a consulting capacity. For example, computer specialists, statistical sampling specialists, actuaries, or educators expert in continuing professional education may participate in certain segments of the review.

### Off-Site Quality Reviews

.21 All reviewers participating in off-site quality reviews (available to firms that perform no audits of historical or prospective financial information) should have had at least five years' experience in the accounting or auditing function<sup>6</sup> of a firm enrolled in an approved practice-monitoring program<sup>7</sup> within the most recent ten years, culminating in a position as (1) a proprietor, partner, or shareholder, or (2) a manager or person with equivalent supervisory responsibilities.

### Performing On-Site Quality Reviews

#### Objectives

.22 An on-site quality review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether during the year under review—

- a. The reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (see Statement on Quality Control Standards No. 1, *System of Quality Control for a CPA Firm*).<sup>8</sup>
- b. The reviewed firm's quality control policies and procedures were being complied with in order to provide the firm with reasonable assurance of conforming with professional standards.

.23 Firms that perform audits of historical or prospective financial statements must have on-site quality reviews because of the public interest in the quality of such audits and the importance to the accounting profession of maintaining the quality of those services.

#### Basic Requirements

.24 An on-site quality review should include a study and evaluation of the quality control policies and procedures that the reviewed firm had in effect for its accounting and auditing practice during a period of one year mutually agreed upon by the reviewed firm and the team captain. Unless the state CPA society administering the review or the AICPA Quality Review Division, as applicable, agrees to another period because of unusual circumstances, the review year must not end before the end of the previous calendar year.

.25 Statement on Quality Control Standards No. 1 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that a firm shall consider each of the following elements of quality control, to the extent applicable to its practice, in establishing its quality control policies and procedures: independence, assigning personnel to engagements, consultation, supervision, hiring,

<sup>5</sup> This provision does not become effective until January 1, 1992, except that if the team captain's firm has had a quality review or a peer review before that date, the report on the review must be unqualified.

<sup>6</sup> See note 4.

<sup>7</sup> This requirement is applicable only if the reviewer was associated after July 12, 1988, with the firm as a proprietor, partner, or shareholder, or as a manager or person with equivalent supervisory responsibilities.

<sup>8</sup> AICPA, *Professional Standards*, vol. 2, QC sec. 10.

professional development, advancement, acceptance and continuance of clients, and inspection. Accordingly, the review team should obtain a general understanding of the reviewed firm's quality control policies and procedures with respect to each of those nine elements of quality control. Ordinarily, this understanding can be obtained from reading the reviewed firm's responses to a questionnaire developed by the AICPA Quality Review Executive Committee. The review team should also perform appropriate compliance tests related to broad functions.

.26 In smaller firms, senior personnel of the firm are usually directly involved in decisions with respect to assignment of personnel, hiring, advancement, and acceptance and continuance of clients. Various factors inherent in their operations (for example, the limitations imposed by the size of the firm, the relative infrequency of certain events, or the informal, cooperative style of management that might be followed by the firm) may make it efficient and perhaps necessary for senior personnel to make those decisions based on the application of professional judgment in the specific circumstances rather than by the application of previously defined criteria and policies. Similarly, those firms may find that ongoing supervision and monitoring of their practices by senior personnel is an effective way to achieve many of the objectives of a formal inspection program. When those circumstances exist in firms with up to ten professionals (defined as CPAs and those expected to seek that status) during the majority of the review year, the team captain would ordinarily decide to restrict compliance tests of broad functions (for example, tests of administrative and personnel files) to those related to independence, consultation, supervision, and professional development. This would be appropriate when the team captain concludes that the review of selected engagements and interviews with firm personnel will provide an adequate means of identifying failures, if any, to achieve the objectives inherent in the other five elements of quality control.

.27 An on-site quality review should also include—

- a. Review of selected engagements, including the relevant working paper files and reports, with fiscal years ending during the review year—unless a more recent report has been issued—constituting a reasonable cross section of the reviewed firm's accounting and auditing practice. If the reviewer notes significant deficiencies in the performance of such engagements or the reporting thereon, he or she should identify actions the firm should consider taking to provide the firm with reasonable assurance that such deficiencies will not recur. In that connection, it might be necessary for the reviewer to expand compliance tests of broad functions to identify such actions. In addition, the reviewed firm shall consider whether it is required to take additional actions under relevant professional standards whenever the review team believes that the firm's report on previously issued financial statements may be inappropriate or that the firm's work may not support the report issued. In such cases, the reviewed firm shall provide the review team with its conclusions in writing (generally on a "Matter for Further Consideration" form prepared by the reviewer).
- b. Attendance at an exit conference by senior members of the reviewed firm and at least the team captain to discuss the review team's findings and recommendations and the type of report it will issue.
- c. Preparation of a written report on the results of the review and, if applicable, a letter of comments (see "Reporting on Reviews").
- d. Preparation by the reviewed firm, if applicable, of a written response to the letter of comments outlining the actions the firm plans to take with respect to the recommendations made by the review team (see "Reporting on Reviews").
- e. Appropriate consideration of the results of the review by a duly constituted committee of a participating state CPA society, or by the AICPA Quality Review Executive Committee or an AICPA committee appointed for that purpose. Such consideration should include, where applicable, an evaluation of the adequacy of the corrective actions the firm has represented it will take and a determination on whether other remedial, corrective actions and/or monitoring of the firm's action plan should be required (see "Acceptance of Reviews").

.28 The AICPA Quality Review Executive Committee has authorized the issuance of programs and checklists, including engagement review checklists, to guide team captains and other members of the review team in carrying out their responsibilities under these standards. Failure to complete all relevant programs and checklists in a professional manner creates the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the quality review program.

## Other Requirements

.29 The requirements set forth in the paragraphs that follow supplement the basic requirements set forth above.

### Scope of the Review

.30 The review should cover a firm's accounting and auditing practice which, for purposes of quality reviews under these standards, is limited to all auditing, review, and compilation services covered by Statements on Auditing Standards, Statements on Accounting and Review Services, Statements on Standards for Accountants' Services on Prospective Financial Information, and standards for financial and compliance audits contained in *Government Auditing Standards* issued by the U.S. General Accounting Office (the "yellow book").

.31 The review should be directed to the professional aspects of the firm's accounting and auditing practice; it should not include the business aspects of that practice. Moreover, review team members should not have contact with or access to any client of the reviewed firm in connection with the review.

.32 The review team will be provided with basic background information about the reviewed firm by the state CPA society administering the review, the AICPA Quality Review Division, or, where applicable, an authorized association of CPA firms. The review team captain should consider whether to request other useful information from the firm in planning the review. In all cases, the team captain should obtain the reviewed firm's last quality review or peer review report and, if applicable, the letter of comments and the response thereto, should consider whether the matters discussed require additional emphasis in the current review, and in the course of the review should evaluate the actions of the firm in response to the prior report and letter of comments.

.33 A divestment of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance for reports issued under the firm's name during that year. A review team captain who is considering whether a review report should be modified in these circumstances should consult with the entity administering the review.

.34 A reviewed firm may have legitimate reasons for not permitting the working papers for certain engagements to be reviewed. For example, the financial statements of an engagement selected for review may be the subject of litigation or investigation by a government authority, or the firm may have been advised by a client that it will not permit the working papers for its engagement to be reviewed. In such circumstances, the review team should satisfy itself as to the reasonableness of the explanation. Also, in order to reach a conclusion that the excluded engagements do not have to be reported as a scope limitation, the review team needs to consider the number, size, and relative complexity of the excluded engagements, and should review other engagements in a similar area of practice as well as other work of the supervisory personnel who participated in the excluded engagements.

.35 In reviewing a practice office, the accounting and auditing practice to be reviewed includes reports issued for or to another office of the reviewed firm, a correspondent firm, or an affiliated firm. For those situations in which engagements selected in the practice office being reviewed include use of the work of another office, correspondent, or affiliate, the review team may limit its review to portions of the engagements performed by the practice office being reviewed but should evaluate the appropriateness of the instructions issued by the reviewed office and the adequacy of the procedures followed to comply with professional standards.

## Study and Evaluation of Quality Controls

.36 The review team should begin its review by a study and evaluation of the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the guidance material contained in Quality Control Policies and Procedures for CPA Firms, *Establishing Quality Control Policies and Procedures*,<sup>9</sup> and in the program for reviewers issued by the AICPA Quality Review Executive Committee. As previously stated, team captains on reviews of firms with up to ten professionals would ordinarily restrict compliance tests of broad functions to those related to the quality control elements of independence, consultation, supervision, and professional development. This study and evaluation, which should be continuously reevaluated during the course of the review, assist the review team in deciding whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.

### Extent of Compliance Tests

.37 Based on its consideration of the background information provided by the firm, including the results of the firm's last quality review or peer review, and on its study and evaluation of the reviewed firm's quality control policies and procedures, the review team should consider whether any modifications to the programs and checklists issued by the AICPA Quality Review Executive Committee are appropriate. The team captain should then develop a general plan for the conduct of the review, including the nature and extent of compliance tests. The compliance tests should be tailored to the practice of the reviewed firm and, taken as a whole, should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed firm's quality control policies and procedures were complied with to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and auditing practice. Such tests should be performed at the practice office(s) visited and should relate either to broad functions or to individual engagements. The tests should include—

- a. Review of selected engagements, including working paper files and reports, to evaluate their conformity with professional standards and compliance with relevant firm quality control policies and procedures in their conduct.
- b. Interviews with firm professional personnel at various levels and, if applicable, other persons responsible for a function or activity, to assess their understanding of and compliance with the firm's quality control policies and procedures.
- c. Obtaining other evidential matter as appropriate, for example, by review of selected administrative or personnel files, correspondence files documenting consultations on technical or ethical questions, files evidencing compliance with continuing professional education requirements, and the firm's library.

### Selection of Offices

.38 The process of office selection in a multi-office firm involves the exercise of considerable professional judgment. Visits to practice offices should be sufficient to enable the review team to evaluate whether the firm's quality control policies and procedures are adequately communicated throughout the firm and whether they are being complied with. Accordingly, the practice offices visited should provide a reasonable cross section of the reviewed firm's accounting and auditing practice and the office selection process should include consideration of the following factors:

- a. Number, size, and geographic distribution of offices
- b. The degree of centralization of accounting and auditing practice control and supervision
- c. The review team's evaluation, where applicable, of the firm's inspection program

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<sup>9</sup> AICPA, *Professional Standards*, vol. 2, QC sec. 90.

- d. Recently merged or recently opened offices
- e. The significance of industry concentrations (including concentrations of engagements in high-risk industries) and of specialty practice areas, such as governmental compliance audits or regulated industries, to the firm and to individual offices

.39 Although the process of office selection is not subject to definitive criteria, a review team should select at least one of the larger offices and one to three others in a multi-office firm with up to fifteen offices and 15 to 25 percent of the offices in a firm with more than fifteen offices.

.40 Reviewers should ask the entity administering the review about any requirements of relevant state boards of accountancy that must be met for the review to be accepted by such board(s) as the equivalent of one performed under the board's own positive enforcement program.

### Selection of Engagements

.41 When combined with other procedures performed, the number and type of accounting and auditing engagements selected by the review teams for review (see "Scope of the Review") should be sufficient to provide the review team with a reasonable basis for its conclusions regarding whether the reviewed firm's quality control system met the objectives of quality control standards established by the AICPA and was being complied with during the year under review.

.42 Engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice. However, the number of review and compilation engagements selected for review may be significantly limited when a substantial portion of the firm's accounting and auditing hours are devoted to audit engagements. Also, greater weight should be given to audit engagements that meet the following criteria:

- a. Engagements in which there is a significant public interest, such as publicly held clients, financial and lending institutions, and brokers and dealers in securities
- b. Engagements in other specialized industries
- c. Engagements that are large, complex, or high-risk or that are the reviewed firm's initial audits of clients

In addition, the sample of engagements selected for review should include at least one audit conducted pursuant to *Government Auditing Standards* issued by the U.S. General Accounting Office (the "yellow book").

.43 Although the process of engagement selection, like office selection, is not subject to definitive criteria, the review team generally should review work that represents 5 to 10 percent of the accounting and auditing hours of the reviewed firm. However, the review team will frequently find that meeting all of the criteria discussed above would cause it to select engagements representing accounting and auditing hours substantially in excess of these percentage guidelines. In such circumstances, the review team should carefully consider whether—

- a. Adequate consideration has been given to the *key audit area* approach to engagement review. (This is discussed more fully in the AICPA programs and checklists.)
- b. Too much weight is being given to the desirability of reviewing work performed by all or most supervisory personnel.
- c. Adequate consideration has been given to engagement selection on a firm-wide basis. For example, if two offices are selected for review and each has a large client in the same specialized industry, consideration should be given to selecting only one of those engagements for review.



### Extent of Engagement Review

.44 The review of engagements should include review of financial statements, accountants' reports, working paper files, and correspondence, as well as discussions with professional personnel of the reviewed firm. The review of audit engagements should ordinarily include all key areas of the engagements selected to determine whether well-planned, appropriately executed, and suitably documented procedures were performed in accordance with professional standards and the reviewed firm's quality control policies and procedures.

.45 For each engagement reviewed (audits, reviews, and compilations), the review team must document whether anything came to its attention that caused it to believe that—

- a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles (or, if applicable, an other comprehensive basis of accounting).
- b. The firm did not have a reasonable basis under applicable professional standards for the report issued.
- c. The documentation on the engagement did not support the report issued.
- d. The firm did not comply with its quality control policies and procedures in all material respects.

.46 If the review team reaches a negative conclusion with respect to items *a*, *b*, or *c*, the team captain should promptly inform an appropriate member of the reviewed firm (generally on a "Matter for Further Consideration" form). The reviewed firm should investigate the matter questioned by the review team and determine what action, if any, should be taken. The reviewed firm should advise the team captain of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required. If the reviewed firm believes that it can continue to support its previously issued report and the review team continues to believe that there may be a significant failure to reach appropriate conclusions in the application of professional standards, the review team should pursue any remaining questions with the reviewed firm and, if necessary, with the entity administering the review. The review team should also consider whether it is necessary to expand the scope of the review by selecting additional engagements to determine the extent and cause of significant departures from professional standards.

.47 In evaluating the reviewed firm's response, the review team should recognize that it has not made an examination of the financial statements in question in accordance with generally accepted auditing standards and that it has not had the benefit of access to client records, discussions with the client, or specific knowledge of the client's business. Nevertheless, a disagreement on the resolution of the matter may persist in some circumstances and the reviewed firm should be aware that it may be requested to refer unresolved matters to the AICPA Quality Review Executive Committee for a final determination.

### Exit Conference

.48 Prior to issuing its report and, if applicable, letter of comments, the review team must communicate its conclusions to senior members of the reviewed firm at an exit conference, which may also be attended by individual(s) with oversight responsibilities. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the review report and about all significant findings and recommendations that will be included in the letter of comments. Accordingly, except in rare circumstances which should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the letter of comments. The exit conference is also the appropriate vehicle for providing suggestions to the firm that do not have an effect on the report or letter of comments.

## Performing Off-Site Quality Reviews

### Objectives

.49 The objective of an off-site quality review is to provide the reviewer with a reasonable basis for expressing limited assurance that the financial statements and related accountant's report on the review and compilation

engagements submitted for review do not depart in a material respect from the requirements of professional standards. This objective is different from the objectives of an on-site quality review in recognition of the fact that off-site quality reviews are available only to firms that perform review or compilation engagements but perform no audits of historical or prospective financial information. An accountant's review report clearly expresses only limited assurance about the financial statements, and an accountant's compilation report states that the accountant expresses no opinion or other form of assurance on the historical or prospective financial statements. Such firms will only be required to have an off-site quality review unless they elect to have an on-site quality review. However, this does not relieve such firms from their obligation to have a system of quality control (see paragraph .03).

### Basic Requirements

.50 Off-site quality reviews are administered only by participating state CPA societies or by the AICPA Quality Review Division. Associations of CPA firms are not authorized to arrange or carry out off-site quality reviews. Also, compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with the AICPA practice-monitoring requirement.

.51 The reviewed firm shall provide summarized information showing the number of its review or compilation clients and the nature of the highest level of service provided to those clients, classified into major industry categories. That information shall be provided for each proprietor, partner, or shareholder of the firm who is responsible for the issuance of review or compilation reports. On the basis of that information, the reviewer or the entity administering the review shall select the types of engagements to be submitted for review, in accordance with the following guidelines:

- a. Select one review or compilation engagement involving a report on a complete set of financial statements as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting, for each proprietor, partner, or shareholder responsible for the issuance of such reports. However, at least two engagements must be selected for the firm.
- b. In selecting engagements for review, include both review and compilation engagements, if both levels of service are provided. Also, attempt to include clients operating in different industries and engagements involving prospective financial statements as well as those involving historical financial statements.
- c. In addition to the selection made in *a*, select, where applicable, one set of financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting and the related accountant's compilation report. However, if the firm's accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, the firm must submit the financial statements and related accountant's report for two such engagements.

The reviewed firm shall submit the appropriate financial statements and accountant's report, masking client identity if it desires, along with specified background information and representations about each engagement.

.52 An off-site quality review consists only of reading the historical or prospective financial statements submitted by the reviewed firm and the accountant's review or compilation report thereon, together with certain background information and representations provided by the reviewed firm. The objective of the review of these engagements is to consider whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with professional standards. An off-site quality review does not include a review of the working papers prepared on the engagements submitted for review, tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in an on-site quality review.

.53 Accordingly, an off-site quality review does not provide the reviewer with a basis for expressing any form of assurance on the firm's quality control policies and procedures for its accounting practice. The reviewer's report does indicate, however, whether anything came to the reviewer's attention that caused him or her to believe that the review and compilation reports submitted for review did not conform with the requirements of professional standards.

.54 A firm that has an off-site quality review must respond promptly to questions raised in the review, whether those questions are raised orally or in writing on a "Matter for Further Consideration" form. The reviewer will contact the firm, before issuing the review report, to resolve questions raised in the review.

.55 Although an off-site quality review does not provide the reviewer with a basis for expressing any form of assurance on the firm's quality control policies and procedures for its accounting practice, it may provide the reviewer with a basis for expressing a conclusion that the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review (an adverse report). In those circumstances, the reviewed firm will be expected to take appropriate remedial, corrective actions with respect to its system of quality control and with respect to engagements with significant deficiencies. In addition, it will ordinarily be required to have another off-site quality review within twelve months.

.56 The reviewer performing an off-site quality review must document the work performed using the programs and checklists issued by the AICPA Quality Review Executive Committee for that purpose. Failure to complete all relevant programs and checklists in a professional manner creates the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the quality review program.

## Reporting on Reviews

### General

.57 Within thirty days of the date of the exit conference or the date of completion of an off-site quality review, the team captain should furnish the reviewed firm with a written report and, where required, a letter of comments. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the association's letterhead. All other reports are to be issued on the letterhead of the entity administering the review, which may be a state CPA society or the AICPA Quality Review Division. The report on an on-site quality review ordinarily should be dated as of the date of the exit conference. The report on an off-site quality review ordinarily should be dated as of the completion of the review procedures.

.58 The team captain or, where provided by its plan of administration, an authorized association of CPA firms should notify the entity administering the review that the review has been completed and should submit to that entity a copy of the report and letter of comments, if any, and the working papers specified in the programs and checklists issued by the AICPA Quality Review Executive Committee.

.59 The reviewed firm should submit a copy of the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments to the entity administering the review within thirty days of the date it received the report and letter.

.60 The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, its clients, or others until it has been advised that the report has been accepted by the state CPA society administering the review or by the AICPA Quality Review Division as meeting the requirements of the quality review program. Those entities may not make the results of the review available to the public, but may disclose on request the following information:

- a. The firm's name and address
- b. The firm's participation in the quality review program

- c. The date of, and the period covered by, the firm's last review
- d. If applicable, the termination of the firm from the program

### Reports on On-Site Quality Reviews

.61 The written report on an on-site quality review should indicate the scope of the review, including any limitations thereon; a description of the general characteristics of a system of quality control; an opinion on whether the system of quality control for the accounting and auditing practice of the reviewed firm met the objectives of quality control standards established by the AICPA and was being complied with during the year reviewed to provide the firm with reasonable assurance of conforming with professional standards; and a description of the reason(s) for any modification of the opinion.

.62 A team captain may issue an unqualified, qualified, or adverse report on the review. In deciding on the type of report to be issued, the team captain should be guided by the considerations discussed in appendix B. The standard form of an unqualified report is illustrated in appendix C. Illustrations of qualified and adverse reports are presented in appendix D.

### Reports on Off-Site Quality Reviews

.63 The written report on an off-site quality review should describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm's quality control policies and procedures for its accounting practice; indicate whether anything came to the reviewer's attention that caused the reviewer to believe that the review and/or compilation reports submitted for review did not conform with the requirements of professional standards in all material respects; and, if applicable, describe the general nature of significant departures from those standards. The report should also, where applicable, include the reviewer's conclusion that the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review.

.64 In deciding on the type of report to be issued, the team captain should be guided by the considerations in appendix G. The standard form for an unmodified report on an off-site quality review is illustrated in appendix H. Illustrations of other types of reports are presented in appendix I. Appendix J includes an illustration of the way in which a firm might respond to a modified review report.

### Letters of Comments

.65 A letter of comments is required to be issued in connection with an on-site quality review when there are matters that resulted in modification(s) to the standard form of report or when there are matters that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements. Such a letter should provide reasonably detailed recommendations for remedial, corrective actions by the reviewed firm so that the state CPA society administering the review or the AICPA Quality Review Division can evaluate whether the firm's response to significant deficiencies noted in the review is a positive one consistent with the objectives of the quality review program and whether the actions taken or planned by the firm appear appropriate in the circumstances.

.66 The letter of comments should be prepared in accordance with the guidance and illustrations in appendix E. An illustration of a response by a reviewed firm is included in appendix F.

.67 When a letter of comments is issued along with a qualified or adverse report, the report on the review must make reference to the letter. No reference should be made to the letter of comments in an unqualified report.

## Acceptance of Reviews

.68 A committee or committees should be appointed by each participating state CPA society and by the AICPA for the purpose of considering the results of reviews administered by them and undertaken to meet the requirements of the quality review program. The activities of such committees (hereafter, the *committee*) should be carried out in accordance with administrative procedures issued by the AICPA Quality Review Executive Committee.

.69 The committee's responsibility is to consider whether—

- a. The review has been performed in accordance with these standards and related guidance materials.
- b. The report, letter of comments, if any, and the response thereto are in accordance with these standards and related guidance material.
- c. It should require any remedial, corrective actions in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions are requiring certain individual(s) to obtain specified types and amounts of continuing professional education, requiring the firm to carry out a more comprehensive inspection program, or requiring it to engage another CPA to perform preissuance reviews of financial statements and reports, or to attempt to strengthen its professional staff.
- d. It should monitor the corrective actions implemented by the reviewed firm. Examples of monitoring procedures are requiring the firm to submit information concerning continuing professional education obtained by firm personnel, inspection reports, or reports by another CPA engaged to perform preissuance reviews of financial statements and reports. Revisits by team captains and accelerated quality reviews are other examples of monitoring procedures.

.70 If no additional corrective actions are deemed necessary, the committee will accept the report and so notify the reviewed firm. If additional actions by the reviewed firm or if monitoring procedures are deemed necessary, the firm will be required to evidence its agreement in writing before the report is accepted.

.71 In the rare event of a disagreement between the committee and the review team or the reviewed firm that cannot be resolved by ordinary good-faith efforts, the committee may request that the matter be referred to the AICPA Quality Review Executive Committee for final resolution. In these circumstances, the AICPA Quality Review Executive Committee may consult with representatives of AICPA technical or ethical committees or with appropriate AICPA staff.

.72 In reaching its conclusions, the committee is authorized to make whatever inquiries or initiate whatever actions it considers necessary in the circumstances, including requesting revision of the report, the letter of comments, or the reviewed firm's response, with due regard for the fact that the quality review program is intended to be positive and remedial in nature, and is based on mutual trust and cooperation. Accordingly, in deciding on the need for and nature of any additional corrective actions or monitoring procedures, the committee should consider the nature, significance, pattern, and pervasiveness of engagement deficiencies. It should evaluate whether the recommendations of the review team appear to address those deficiencies adequately and whether the reviewed firm's responses to those recommendations appear comprehensive, genuine, and feasible. In a subsequent review, its conclusions should be significantly influenced by a finding that the reviewed firm did not adequately implement significant corrective actions it had represented it would take and by the committee's assessment of the reason for such a failure. If such a failure continues despite requirements for corrective actions and appropriate monitoring, the committee should consider whether requirements for remedial, corrective actions are adequate responses to the situation.

.73 If a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate, the AICPA Quality Review Executive Committee may take actions, pursuant to due process procedures that it will establish, leading

to the termination of the firm from the quality review program. However, if a decision is made to terminate a firm's enrollment, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the findings. The trial board will have the authority to confirm or to reduce the severity of the findings, but it will not have the authority to increase their severity. The fact that a firm's enrollment in the quality review program has been terminated shall be reported in an AICPA membership periodical.

## **Qualifications of Committee Members**

.74 Each member of a committee charged with the responsibility for acceptance of reviews must be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program as a proprietor, partner, shareholder, or as a manager or person with equivalent supervisory responsibilities. A majority of the members must also possess the qualifications required of on-site quality review team captains. A member may not participate in any discussion or have any vote with respect to a reviewed firm as to which the member lacks independence or has a conflict of interest.

**.75 Appendix A****Independence Requirements****Reciprocal Reviews**

1. Reciprocal reviews are not permitted. This means that a firm may not perform a review of the firm that performed its most recent quality review or peer review. It also means that no professional may serve on a review team carrying out a review of a firm whose professional personnel participated in the most recent review of that professional's firm.

**Relationships With Clients of the Reviewed Firm**

2. Review team members and, in the case of a review performed by a firm, the reviewing firm and its personnel are not precluded from owning securities in or having family or other relationships with clients of the reviewed firm. However, a review team member who owns securities of a reviewed firm's client shall not review the engagement of that client, since that individual's independence would be considered to be impaired. In addition, the effect on independence of family and other relationships and the possible resulting loss of the appearance of independence must be considered when assigning team members to engagements.

**Relationships With the Reviewed Firm**

3. Reviewing firms should consider any family or other relationships between the senior managements at organizational and functional levels of the reviewing firm and the firm to be reviewed and should assess the possibility of an impairment of independence.

4. If the fees for correspondent work, whether paid by the referring firm or by the client, involving the reviewed firm and the reviewing firm or the firm of any member of the review team, are material to any of those firms, independence for the purposes of this program is impaired.

5. If continuing arrangements exist between the reviewed firm and the reviewing firm or the firm of any member of the review team whereby fees, office facilities, or professional staff are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, frequent continuing education programs, extensive consultation, preissuance reviews of financial statements and reports, and audit and accounting manuals. In such circumstances, the firms involved are sharing materials and services that are an integral part of their quality control systems. However, the impairment would be removed if an independent review was made of the shared materials (such as continuing education programs or an audit and accounting manual) before the quality review commenced and that independent review was accepted by the AICPA Quality Review Executive Committee or the relevant state CPA society (or by a peer review committee of the AICPA Division for CPA Firms) before that date. (Firms that share materials and services are advised to consult with the AICPA Quality Review Division if an independent review of such shared materials and services appears necessary.) Also, independence for the purposes of this program is not impaired by the performance of a review of a firm's quality control document, of a preliminary quality control procedures review or *consulting review*, or an inspection.



**.76 Appendix B****Considerations Governing the Type of Report Issued on an On-Site Quality Review****Limitation on Scope of Review**

1. A modified report should be issued when the scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, as indicated in the Standards, a review team may be able to apply appropriate alternate procedures when one or more engagements have been excluded from the scope of the review for legitimate reasons but ordinarily would be unable to apply alternate procedures when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began. A review team captain who is considering modifying the review report for a scope limitation should consult with the entity administering the review.

**The Nature and Significance of Engagement Deficiencies**

2. The overriding objective of a system of quality control is to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and auditing practice. When a review team encounters significant failures to reach appropriate conclusions, particularly those requiring the application of the AICPA's *Professional Standards*, volume 1, AU section 390, "Consideration of Omitted Procedures After the Report Date," or AU section 561, "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report," the team is faced with a clear indication that, in those engagements, the firm did not comply with professional standards. The review team's first task in such circumstances is to try to determine why the failure occurred. The cause of the failure to reach appropriate conclusions might be systems-related and might affect the type of report issued when, for example—

- a. The failure related to a specialized industry practice and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
- b. The failure related to a matter covered by a recent professional pronouncement and the firm had failed to identify through professional development programs or appropriate supervision the relevance of that pronouncement to its practice.
- c. The failure should have been detected if the firm's quality control policies and procedures had been followed.
- d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the entity administering the review before reaching such a conclusion.

3. The failure to reach appropriate conclusions on an engagement may be the result of an isolated human error and, therefore, does not necessarily mean that the review report should be modified. However, when the reviewer believes that the probable cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a significant failure to reach appropriate accounting and auditing conclusions on one engagement also exists in other engagements, even though no significant deficiencies were noted in those engagements, the reviewer needs to consider carefully the need for a qualified or adverse report.

## **The Pattern and Pervasiveness of Engagement Deficiencies**

4. The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. As in the preceding section, the review team's first task is to try to determine why the deficiencies occurred. In some cases, the design of the firm's system of quality control may be deficient as, for example, when it does not provide for timely partner involvement in the planning process. In other cases, there may be a pattern of noncompliance with a quality control policy or procedure as, for example, when firm policy requires the completion of a financial statement disclosure checklist but such checklists often were used only as a reference and not filled out. That, of course, makes effective partner review more difficult and increases the possibility that the firm might not comply with professional standards in a significant respect. On the other hand, the types of deficiencies noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the deficiencies were isolated cases of human error.

### **Design Deficiencies**

5. There may be circumstances when the reviewer finds few deficiencies in the work performed by the firm and yet may conclude that the design of the firm's quality control system needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to necessary policies and procedures in areas such as hiring, assigning personnel to engagements, advancement, and client acceptance and continuance. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of conforming with professional standards in one or more important respects. However, in the absence of deficiencies in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be dealt with in the letter of comments.

\* \* \* \*

6. In order to give appropriate consideration to the evidence obtained and to form appropriate conclusions, the review team must understand the elements of quality control and exercise professional judgment. The exercise of professional judgment is essential because the significance of the evidence obtained cannot be evaluated primarily on a quantitative basis.

**.77 Appendix C****Standard Form for an Unqualified Report on an On-Site Quality Review**

*[AICPA or State Society letterhead for a "CART Review"; Firm letterhead for a "Firm Review"; Association letterhead for an "Association Review"]*

August 31, 19XX

To the Partners  
Able, Baker & Co.

*or*

To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of *[Name of Firm]* (the firm) in effect for the year ended June 30, 19XX. Our review was conducted in conformity with standards for on-site quality reviews established by the American Institute of Certified Public Accountants. We tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by the AICPA. Those standards indicate that a firm's system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in individual performance can affect the degree of compliance with a firm's quality control system and, therefore, recognize that there may not be adherence to all policies and procedures in every case.

In our opinion, the system of quality control for the accounting and auditing practice of *[Name of Firm]* in effect for the year ended June 30, 19XX, met the objectives of quality control standards established by the AICPA and was being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

John Brown, Team Captain  
*[or Name of Reviewing Firm]*

**.78 Appendix D****Illustrations of Qualified and Adverse Reports on an On-Site Quality Review****Report Qualified for Design Deficiency**

*[Separate paragraph after the standard first two paragraphs]*

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision regarding audit planning were not appropriately designed to provide the firm with reasonable assurance of conforming with professional standards.

*[Opinion paragraph]*

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control. . . .

**Report Qualified for Noncompliance**

*[Separate paragraph after the standard first two paragraphs]*

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for supervision regarding completion of financial statement reporting and disclosure checklists were not followed in a manner to provide the firm with reasonable assurance of conforming with professional standards.

*[Opinion paragraph]*

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control. . . .

**Adverse Report**

*[Separate paragraph after the standard first two paragraphs]*

As discussed in our letter of comments under this date, our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in complying with the standards for accounting and review services. In that connection, our review disclosed that the firm's quality control policies and procedures were not appropriately designed because they do not require the preparation of a written audit program, which is required by generally accepted auditing standards. In addition, our review disclosed failures to complete financial statement reporting and disclosure checklists required by firm policy and failures to review engagement working papers in the manner required by firm policy.

*[Opinion paragraph]*

In our opinion, because of the significance of the matters discussed in the preceding paragraph, the system of quality control for the accounting and auditing practice of *[Name of Firm]* in effect for the year ended June 30, 19XX, did not meet the objectives of quality control standards established by the AICPA (, was not being complied with during the year then ended *[include when there are compliance as well as design deficiencies]*) and did not provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.

**.79 Appendix E****Guidelines for and Illustration of a Letter of Comments on an On-Site Quality Review****Guidelines**

1. The objectives of the letter of comments on an on-site quality review are set forth in the Standards. Such letters are expected to be issued on most on-site reviews.

2. The letter should be addressed, dated, and signed in the same manner as the report on the on-site quality review, and should include—

- a. A reference to the report on the review, indicating, where applicable, that the report was qualified or adverse.
- b. A description of the purpose of the on-site quality review.
- c. A statement that the review was performed in accordance with standards established by the AICPA.
- d. A description of the limitations of a system of quality control.
- e. The findings on the review and related recommendations. (This section should be separated between those findings, if any, that resulted in a modified report and those that did not. In addition, the letter should identify, where applicable, any comments that were also made in the letter of comments issued on the firm's previous on-site quality review or peer review.)
- f. A statement that the matters discussed in the letter were considered in determining the opinion on the system of quality control.

3. In addition to matters that resulted in a modified report, which must always be included in the letter, the letter of comments should include, according to the Standards, "matters that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements." The letter should include comments on such matters even if they did not result in deficiencies on the engagements reviewed. When engagement deficiencies, particularly instances of nonconformity with professional standards, were attributable to deficiencies in the design of the firm's system of quality control or noncompliance with significant firm policies and procedures that are included in the letter, that fact should be noted in the comment.

4. Although isolated instances of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in a letter of comments, their nature, importance, causes (if determinable), and implications for the firm's quality control system as a whole should be evaluated in conjunction with the review team's other findings before making a final determination.

## Illustration of a Letter of Comments

[AICPA or State Society letterhead for a "CART Review"; Firm letterhead for a "Firm Review"; Association letterhead for an "Association Review"]

August 31, 19XX

To the Partners  
Able, Baker & Co.

or

To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [Name of Firm] (the firm) in effect for the year ended June 30, 19XX, and have issued our report thereon dated August 31, 19XX (which was modified as described therein). This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon the firm's system of quality control and its compliance with that system. Our review was performed in accordance with standards for on-site quality reviews established by the American Institute of Certified Public Accountants; however, our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the procedure may become inadequate because of changes in conditions or that the degree of compliance with the procedure may deteriorate.

### ***Matters That Resulted in a Modified Report \****

***Finding***—The firm's quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but emphasize the importance of proper planning to the conduct of the engagement. We found one engagement in which, as a result of a lack of involvement, including timely supervision, by the engagement partner in planning the audit, the work performed on receivables and inventory did not appear to support the firm's opinion on the financial statements. (As a result of this finding, the firm performed the necessary additional procedures to provide a satisfactory basis for its opinion.)

***Recommendation***—The firm's quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program.

### ***Matters That Did Not Result in a Modified Report \****

***Finding***—Our review disclosed several engagements for which financial statement disclosures were missing or incomplete. None of the missing or incomplete disclosures represented significant departures from professional standards, but in each case we noted that the firm had not complied with its policy requiring completion of a financial reporting and disclosure checklist.

***Recommendation***—The firm should comply with its policy requiring completion of its financial reporting and disclosure checklist. We recommend that the firm emphasize the importance of this policy to all personnel in its training sessions.

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\* Include these captions only when the report is modified.

**Finding**—Our review disclosed that the firm's reference library contains outdated editions of industry audit and accounting guides for industries in which some of the firm's clients operate. As a result, we found a few instances where financial statement formats departed, although not in material respects, from current practice.

**Recommendation**—The firm should assign the responsibility for ensuring that the library is comprehensive and up-to-date to one individual. That individual should monitor new publications, determine which should be obtained, and periodically advise professional personnel of additions to the library.

The foregoing matters were considered in determining our opinion set forth in our report dated August 31, 19XX, and this letter does not change that report.

*[Same signature as on the report on the on-site quality review]*

**.80 Appendix F****Illustration of Response by a Reviewed Firm to a Letter of Comments on an On-Site Quality Review**

The purpose of a letter of response is to describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see the section of these Standards on "Acceptance of Reviews").

\* \* \* \*

September 15, 19XX

*[Addressed to the Entity Administering the Review, which may be the AICPA Quality Review Division or a participating State Society of CPAs]*

Ladies and Gentlemen:

This letter represents our response to the letter of comments issued in connection with our firm's on-site quality review for the year ended June 30, 19XX. The matters discussed herein were brought to the attention of all professional personnel at a training session held on September 10, 19XX.

***Matters That Resulted in a Modified Report***

***Partner Involvement in Audit Planning***—The firm modified its quality control policies and procedures to require partner involvement in the planning stage of all audit engagements. In addition, we identified review engagements that are sufficiently large or complex to warrant partner involvement in the planning stage. The revised policies and procedures require the engagement partner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in the training session referred to above.

***Matters That Did Not Result in a Modified Report***

***Financial Reporting and Disclosure Checklists***—All professional personnel were reminded of the importance of complying with the firm's policy requiring completion of its financial reporting and disclosure checklist at the training session held on September 10, 19XX. In addition, the firm's engagement review questionnaire is being revised to require the engagement partner to document his or her review of the completed checklist. (The engagement review questionnaire is a brief form completed by the engagement partner and manager at the conclusion of an audit to document their completion of their assigned responsibilities.)

***Responsibility for Reference Library***—The responsibility for keeping the firm's reference library comprehensive and up-to-date and for advising professional personnel of additions to the library has been assigned to an experienced audit manager. Current editions of industry audit and accounting guides have been ordered.

\* \* \* \*

We believe these actions are responsive to the findings of the review.

Sincerely,

*[Name of Firm]*



**.81 Appendix G****Considerations Governing the Type of Report Issued on an Off-Site Quality Review****Significant Departures Requiring Disclosure in the Report**

1. The objective of an off-site quality review is to provide the reviewer with a reasonable basis for expressing limited assurance that the financial statements and related accountant's report on review and compilation engagements submitted for review do not depart in a material respect from the requirements of professional standards. Accordingly, when the review discloses significant departures from professional standards in the engagements reviewed, those departures should be clearly described in the review report as exceptions to the limited assurance expressed in the report. In this context, a significant departure from professional standards involves—

- a. A departure from the measurement or disclosure requirements of generally accepted accounting principles or, where applicable, an other comprehensive basis of accounting, that can have a significant effect on the user's understanding of the financial information presented and that is not described in the accountant's report. Examples might include a failure to provide an allowance for doubtful accounts when it is probable that a material amount of accounts receivable is uncollectible; the use of an inappropriate method of revenue recognition; a failure to capitalize financing leases or to make important disclosures about significant leases; a failure to disclose significant related party transactions; or a failure to disclose key assumptions in a financial forecast.
- b. The issuance of a review or compilation report that is misleading in the circumstances. Examples might include a review report on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles; a compilation report that does not refer to such omission; or a review report that refers to conformity with generally accepted accounting principles when the financial statements have been prepared on an other comprehensive basis of accounting.

**Circumstances Calling for an Adverse Report**

2. As indicated in these Standards, an off-site quality review does not provide the reviewer with a basis for expressing any form of assurance on the reviewed firm's quality control policies and procedures, but it may provide the reviewer with a basis for expressing a conclusion that the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review. Deciding whether the findings of an off-site quality review support the expression of such an opinion requires the careful exercise of professional judgment. In reaching a decision, the reviewer would ordinarily consider—

- a. The pattern and pervasiveness of significant departures from professional standards, as described above, that were disclosed by the review. For example, an adverse opinion might not be appropriate if the departures were isolated to the work of one partner or to engagements in one industry or related to the same accounting or reporting issue.
- b. The response of the reviewed firm to the departures noted.

**Other Departures That May Require Disclosure**

3. The reviewer may note other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice. The reviewer should describe these findings in the review report.

**.82 Appendix H****Standard Form for an Unmodified Report on an Off-Site Quality Review**

[AICPA, State Society, or Firm letterhead, as applicable]

August 31, 19XX

To the Partners  
Able, Baker & Co.

or

To John B. Able, CPA

We have performed an off-site quality review with respect to the accounting practice of [Name of Firm] for the year ended June 30, 19XX, in accordance with standards established by the American Institute of Certified Public Accountants. [Name of Firm] has represented to us that it performed no audits of historical or prospective financial statements during the year ended June 30, 19XX.

An off-site quality review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site quality review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site quality review, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by [Name of Firm] and issued in the conduct of its accounting practice during the year ended June 30, 19XX, did not conform with the requirements of professional standards in all material respects.

John Brown, Reviewer\*  
[or Name of Reviewing Firm]

---

\* The description *Reviewer*, not *Team Captain*, should be used in reports on off-site quality reviews.

**.83 Appendix I****Illustrations of Modified Reports on an Off-Site Quality Review****Disclosure of Significant Departures in the Report**

*[Modified concluding paragraphs after the first two standard paragraphs]*

In connection with our off-site quality review, with the exception of the matters described in the following paragraph, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by *[Name of Firm]* and issued in the conduct of its accounting practice during the year ended June 30, 19XX, did not conform with the requirements of professional standards in all material respects.

The firm's review report on the financial statements of one of the engagements submitted for review did not disclose the failure to capitalize a financing lease, as required by generally accepted accounting principles. Also, financial statement disclosure deficiencies related to the components of income tax expense and related party transactions were noted in several of the engagements reviewed.

**Adverse Report on an Off-Site Quality Review**

*[Separate paragraph after the first two standard paragraphs]*

Our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles and in complying with standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to comply with generally accepted accounting principles in accounting for leases, in accounting for revenues from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements.

*[Modified concluding paragraph]*

Because of the significance of the matters described in the preceding paragraph, in our opinion, *[Name of Firm]* did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year ended June 30, 19XX.

**Disclosure of Other Departures in the Report**

*[Separate paragraph after the first two standard paragraphs]*

Our review identified disclosure deficiencies in the financial statements on several of the engagements submitted for review. Also, on one engagement, the firm's review report did not indicate the degree of responsibility being taken for supplementary information accompanying the basic financial statements, as required by professional standards. However, none of these matters were considered to be significant departures from professional standards.

*[Standard concluding paragraph]*

In connection with our off-site quality review, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by *[Name of Firm]* and issued in the conduct of its accounting practice during the year ended June 30, 19XX, did not conform with the requirements of professional standards in all material respects.

**.84 Appendix J****Illustration of Response by a Reviewed Firm to a Modified Report on an Off-Site Quality Review**

The purpose of a letter of response to a modified report on an off-site quality review is to describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report. If the reviewed firm disagrees with one or more of the findings in the report, its response should describe the reasons for such disagreement. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see the section of these Standards on "Acceptance of Reviews").

\* \* \* \*

September 15, 19XX

*[Addressed to the Entity Administering the Review, which may be the AICPA Quality Review Division or a participating State Society of CPAs]*

Ladies and Gentlemen:

This letter represents (our) (my) response to the report on the off-site quality review of (our firm's) (my) accounting practice for the year ended June 30, 19XX. That report commented on the failure to capitalize a financing lease in financial statements (we) (I) had reviewed and noted that there were financial statement disclosure deficiencies in several of the engagements reviewed.

(The firm has) (I have) recalled all copies of the review report on the financial statements that did not reflect the capitalization of a financing lease in accordance with generally accepted accounting principles, and corrected financial statements are being prepared.

To prevent the recurrence of this situation, as well as to prevent the other disclosure deficiencies referred to in the report on the off-site quality review, (we) (I) have obtained copies of the AICPA's reporting and disclosure checklists. These checklists will be completed on all review engagements and on selected compilation engagements.

In addition, (our) (my) staff have been advised of the importance of consultation within the firm when they encounter unfamiliar situations and have been encouraged to use the AICPA Technical Information Hotline in those circumstances.

(We) (I) believe these actions are responsive to the findings of the review.

Sincerely,

*[Name of Firm]*

## Quality Review Executive Committee (1988-1989)

MICHAEL A. WALKER, *Chairman*  
GERALD H. BANWART  
BRUCE S. BOTWIN  
PAUL R. BROWNER  
BERNARD W. GRATZER\*  
BRUCE N. HUFF  
WILLIAM G. KOCH  
DUANE W. KUEHL  
ZENO H. MONTGOMERY  
SCOTT R. NELSON

SABINO OLIVAS III  
MICHAEL J. SCHWARZ  
JOSEPH SPERSTAD\*  
C. DAVID STAUFFER

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THOMAS P. KELLEY,  
*Group Vice President,*  
*Professional*  
DALE E. RAFAL,  
*Director, Quality Review*

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\* Consultant

# QRP Section 3100

## Quality Review Standards Interpretations

Interpretations of the *Standards for Performing and Reporting on Quality Reviews* are developed in open meetings by the Quality Review Executive Committee for reviews conducted under the quality review program. Interpretations of standards need not be exposed for comment and are not the subject of public hearings. These interpretations are applicable to firms enrolled in the quality review program, individuals and firms who perform and report on such reviews, state CPA societies that participate in the administration of the program, associations of CPA firms that assist their members in arranging and carrying out quality reviews, and the AICPA Quality Review Division itself.

### Interpretation No. 1—Reviews of Sole Practitioners Who Audit Historical or Prospective Financial Statements

(Amended May 1, 1992)

.01 *Standards for Performing and Reporting on Quality Reviews* requires firms that perform audits of historical or prospective financial statements to have on-site quality reviews (*AICPA Quality Review Manual*, QRP section 3000.04). The review should provide the reviewer with a reasonable basis for expressing an opinion on whether during the year under review the reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA and was being complied with in order to provide the reviewed firm with reasonable assurance of conforming with professional standards.

.02 To achieve those objectives, the reviewer is required to test administrative and personnel files; review selected engagements, including the relevant working paper files and reports; interview firm personnel; access other evidential matter, as appropriate; and communicate his or her conclusions to senior members of the reviewed firm at an exit conference. It was contemplated that these procedures would be performed in the most practicable, cost-effective manner during a visit to the reviewed firm and, thus, the term "on-site quality reviews" was used in the *Standards*. However, many sole practitioners believe that their reviews could be carried out at less cost if they were permitted to send the required files, reports, and other evidential matter to the reviewer.

.03 A review conducted at the reviewer's office or another agreed-upon location can achieve the objectives of an on-site quality review and can be described as such in the reviewer's report provided that (1) the reviewed firm is a sole practitioner with four or fewer professional staff; (2) the sole practitioner holds one or more meetings, by telephone or in person, with the reviewer to discuss the firm's responses to the quality control policies and procedures questionnaire, engagement findings, and the reviewer's conclusions on the review; and (3) in addition to materials outlined in the "Instructions to Firms Having an On-Site Quality Review" (see QRP section 4100.07), the sole practitioner sends the following materials to the reviewer prior to the review:

- (a) All documentation related to the resolution of independence questions (a) identified during the year under review with respect to any audit or accounting client or (b) related to any of the audit or accounting clients selected for review, no matter when the question was identified if the matter still exists during the review period.
- (b) The most recent independence confirmations received from other firms of CPAs engaged to perform segments of engagements on which the sole practitioner acted as principal auditor or accountant.
- (c) The most recent representations received from all professional staff concerning their compliance with applicable independence requirements.

- (d) Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client.
- (e) A list of relevant technical publications used as research materials, as referred to in question B.4 of the Questionnaire (see QRP sections 4200.02.B.4 and 4300.02.C.4).
- (f) A list of audit and accounting materials, if any, identified in response to the questions in the "Supervision" section of the Questionnaire (see QRP section 4200.02.C).
- (g) CPE records sufficient to demonstrate compliance by the CPAs in the firm with state and AICPA continuing professional education requirements.
- (h) The relevant working paper files and reports on the engagements selected for review.
- (i) Any other evidential matter requested by the reviewer.

.04 In the event that deficiencies are noted during the review of selected engagements, the scope of the review may have to be expanded before the review can be completed.

.05 A sole practitioner and the reviewer should mutually agree on the appropriateness and efficiency of this approach to the quality review.

## **Interpretation No. 2—Selection in On-Site Quality Reviews of Audits Conducted Pursuant to the Employee Retirement Income Security Act of 1974**

.06 Question: During 1990, regulators and legislators focused attention on the quality of audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA). If the firm performs such audits, should one of those engagements be selected for review in an on-site quality review?

.07 Interpretation: The *Standards for Performing and Reporting on Quality Reviews* require that the engagements selected for review in an on-site quality review provide a reasonable cross section of the reviewed firm's accounting and auditing practice and that greater weight be given to audit engagements that meet the following criteria:

- a. Engagements in which there is a significant public interest, such as publicly held clients, financial and lending institutions, and brokers and dealers in securities.
- b. Engagements in other specialized industries.
- c. Engagements that are large, complex or high risk or that are the reviewed firm's initial audits of clients.

In addition, the *Standards* require that the sample of engagements include at least one audit conducted pursuant to *Government Auditing Standards* issued by the U.S. General Accounting Office (*AICPA Quality Review Program Manual*, QRP section 3000.41-42).

.08 In selecting engagements for review, the reviewer should consider whether "high-risk" engagements and engagements with a "significant public interest" have been identified by the firm as a result of the application of its quality control policies and procedures on, for example, acceptance and continuance of clients, supervision, or consultation. The reviewer should also consider whether certain industries represented in the reviewed firm's accounting and auditing practice should be given greater weight in the engagement selection process because engagements in those industries pose a higher risk because of economic or business conditions or because there is a significant public interest in those engagements as evidenced by, for example, regulatory or legislative requirements or developments. The reviewer should also consider requirements that may have been published by regulatory agencies with respect to the peer or quality review process.

.09 Regulatory and legislative developments during 1990 have made it clear that there is a significant public interest in audits conducted pursuant to the Employee Retirement Income Security Act of 1974. Accordingly greater weight should be given in the engagement selection process on on-site reviews to those audits if the firm performs such engagements.

### **Interpretation No. 3—Team Captain Qualifications: Association with a Firm That Had an Unqualified Review Within the Previous Three Years**

.10 Question: If a reviewer's firm has not had a review within the previous three years because the firm's review was postponed by the administering entity, is the reviewer permitted to serve as a team captain on a quality review?

.11 Interpretation: The *Standards for Performing and Reporting on Quality Reviews* requires that a team captain be associated with a firm that has received an unqualified report on its system of quality control within the previous three years (AICPA Quality Review Manual, QRP section 3000.18). The Standards also state that the requirement becomes effective on January 1, 1992. However, if the firm has had a review prior to that date, the report on the review must be unqualified.

.12 In rare circumstances, reviews may be postponed as the result of a request by the AICPA or another administering entity to balance its administrative workload. In such circumstances, the requirement that a team captain's firm must have a review within the previous three years may be waived for a period of time equal to the length of the postponement provided that (1) all of the other requirements for service as a team captain are met and (2) the firm's most recent review resulted in an unqualified report.

### **Interpretation No. 4—Requirements for Off-Site Reviews Conducted by Members of Associations of CPA Firms**

.13 Question: May a member of an association of CPA firms perform an off-site review of a firm that is a member of the same association?

.14 Interpretation: The *Standards for Performing and Reporting on Quality Reviews* permits associations of CPA firms to assist its members by organizing review teams to carry out on-site reviews for its members but prohibits associations from arranging or carrying out off-site quality reviews (AICPA Quality Review Program Manual, QRP sections 3000.15 and 3000.50).

.15 Reviewers associated with firms that are members of an association of CPA firms may perform off-site reviews for other members of the association provided that the association is *not* involved in arranging or carrying out these reviews and provided the firms are independent of each other.

.16 Assisting association members in carrying out or arranging a review includes, but is not limited to, the following activities:

- Verifying the qualifications of off-site reviewers.
- Providing program materials for the performance of off-site reviews.
- Providing consultations on technical accounting, ethics and quality review program matters.
- Resolving disagreements and disputes.
- Monitoring the completion of reviews.
- Receiving review working papers.



## **Interpretation No. 5—Off-Site Reviewer Qualifications: Association with a Firm That Has Had a Review**

(Amended September 4, 1992)

**.17 Question:** Must an off-site reviewer who is in the practice of public accounting be associated with a firm that has had a previous review and must the report on that review be unqualified?

**.18 Interpretation:** Paragraphs 17 and 21 of the *Standards for Performing and Reporting on Quality Reviews* (Standards), (AICPA Quality Review Program Manual, QRP sections 3000.17 and 3000.21) indicate that an off-site reviewer must:

- Be a member of the AICPA licensed to practice as a certified public accountant.
- Possess current knowledge of applicable professional standards.
- Have at least five years' experience in the accounting or auditing function of an enrolled firm within the last 10 years, culminating in a position as either a proprietor, partner, shareholder, or manager or person with equivalent supervisory responsibilities.

**.19** The *Standards* also state (QRP section 3000.18) that an on-site quality review team captain must be associated with a firm that has received an unqualified report on its system of quality control within the previous three years. That provision became effective January 1, 1992 (if the team captain's firm had a review before that date, the report on the review must also be unqualified). However, the *Standards* are silent regarding the application of this requirement to firms or reviewers in the practice of public accounting who perform off-site quality reviews.

**.20** Although the *Standards* are silent regarding the application of the requirement for an unqualified report to an off-site review, there is no logical basis for concluding that the requirement should not be equally applicable to off-site reviews. (Moreover, the Quality Review Executive Committee is authorized to establish procedures for the administration of the program, and this is more a matter of appropriate administrative policy than the strict interpretation of *Standards*.) Accordingly, an off-site reviewer who is in the practice of public accounting must now be associated with a firm that has had a review. If the firm has an on-site review, the report must be unqualified. If the firm has an off-site review, the report must not be adverse or modified for significant departures from professional standards. (See Appendixes H and I of the *Standards* for the types of reports.) If the firm has had a review before January 1, 1992, the report on that review must meet the same requirements. (If the reviewer is associated with more than one firm, the conditions specified apply to all firms associated with the reviewer.)

**.21** If a reviewer is associated with a firm that has not had a peer review or quality review because it does not perform any accounting and auditing engagements, the requirement for the reviewer to be associated with a firm that has had a review and received an unqualified report is waived.

## **Interpretation No. 6—Off-Site Reviewer Qualifications: Performance of Firm-on-Firm Off-Site Reviews**

**.22 Question:** Can firms not enrolled in a practice-monitoring program perform firm-on-firm off-site reviews?

**.23 Interpretation:** No. In order to perform firm-on-firm off-site reviews, an individual must be associated with a firm enrolled in an approved practice-monitoring program.

## Interpretation No. 7—Selection of SEC Engagements in On-Site Quality Reviews

**.24 Question:** Firms that audit one or more SEC clients as defined by Council in an Implementing Resolution under Bylaw Section 2.3.5 may enroll in the Quality Review Program only when they have resigned, declined to stand for re-election, or been dismissed as auditor of all such clients. In that event, should one or more of such engagements be selected for review in the firm's on-site quality review?

**.25 Interpretation:** The *Standards for Performing and Reporting on Quality Reviews* state that "greater weight should be given to audit engagements . . . in which there is a significant public interest, such as publicly held clients, financial and lending institutions, and brokers and dealers in securities." This guidance applies to all SEC audit engagements carried out during the year under review, whether or not the entities involved remain clients of the firm.

**.26** In addition, the reviewer should satisfy himself or herself that the SEC has been notified by appropriate filings of Form 8-Ks that the firm has resigned, declined to stand for re-election, or been dismissed as auditor of the SEC clients that were clients at any time since the date of the firm's last peer review or quality review or during the year under review if the reviewed firm has not previously had a review.

## Interpretation No. 8—Reviewer Experience Requirements

**.27 Question:** Paragraph 17 of the *Standards for Performing and Reporting on Quality Reviews (Standards)*, (AICPA Quality Review Program Manual, QRP section 3000.17) states that "an individual serving as a reviewer (whether for on-site or off-site quality reviews) must be a member of the AICPA licensed to practice as a certified public accountant and must possess current knowledge of applicable professional standards." Paragraph 18 of the *Standards* (QRP section 3000.18) requires that "reviewers participating in on-site quality reviews be currently active in public practice at the supervisory level in the accounting and auditing function of a firm enrolled in an approved practice-monitoring program." What do the standards mean by "possess current knowledge of professional standards" and "currently active in the auditing. . . function?"

**.28 Interpretation:** Footnote 4 to Paragraph 18 of the *Standards* states that the standard set forth in paragraph 18 "is not intended to require that reviewers spend all their time on accounting and auditing engagements and that reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a quality review with professional expertise."

**.29** A reviewer would be considered "currently active in the auditing. . . function" if he or she is currently involved in the auditing practice of his or her firm either supervising one or more of the firm's audit engagement teams or carrying out a quality control/review function on the firm's audit engagements.

**.30** For a reviewer to be considered to have "current knowledge of applicable professional standards," he or she should also be knowledgeable about current rules and regulations applicable to the industries he or she reviews. Such knowledge may be obtained from training courses, on-the-job training, or a combination of both.

**.31** Because some industries are high-risk and complex, they require a higher level of knowledge and recent practice experience. Therefore, if a reviewer does not have recent practice experience in such an industry, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry.

**.32** The entity administering the review has the authority to decide whether a reviewer's experience is sufficient to perform a particular review.

## QRP Section 3600

# GUIDANCE FOR WRITING A LETTER OF COMMENTS

This guide has been developed by the AICPA Division for CPA Firms' Private Companies Practice Section Peer Review Committee, the SEC Practice Section Peer Review Committee and the AICPA Quality Review Executive Committee to provide practice monitoring reviewers with additional guidance on preparing letters of comments. The examples included in this section are for illustrative purposes only. Actual letters of comments should be prepared based on the specific facts and circumstances.

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# QRP Section 3600

## *Guidance for Writing a Letter of Comments*

### Introduction

.01 The criteria for including an item in the Letter of Comments is whether the item resulted in a condition being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements. Because this is a very low threshold, most reviews result in the issuance of a Letter of Comments.

### Objectives

.02 The major objectives of the letter are to—

- a. Report matters (including the matters, if any, that resulted in a qualified report) that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, and to set forth recommendations regarding those matters.
- b. Provide information about the effectiveness of the firm's quality control system.
- c. Provide the practice-monitoring review committees and public oversight board, if applicable, with some of the information necessary to evaluate the appropriateness of the reviewed firm's responses to significant deficiencies noted in the review and whether the actions taken or planned by the firm appear appropriate in the circumstances.

### General Guidelines

.03 The letter should be addressed, dated, and signed in the same manner as the report. It should include—

- a. A reference to the report indicating if it was qualified.
- b. A description of the purpose of the practice monitoring review.
- c. A statement that the review was performed in accordance with the standards promulgated by the section.
- d. A description of any limitations on the scope of the review.
- e. A description of the limitations of a system of quality control.
- f. The reviewer's findings and recommendations.
- g. A statement that the matters discussed in the letter were considered in determining the opinion on the system of quality control.

### Matters to Be Included in the Letter of Comments

.04 The letter of comments should include comments, as described below, regarding the design of the reviewed firm's system of quality control, or its compliance or documentation of its compliance with that system or with the membership requirements.<sup>1</sup> In addition, if a qualified practice monitoring review report is issued, the

<sup>1</sup> Membership requirements are applicable only to SECPS and PCPS peer reviews. See SECPS § 1000, "Organizational Structure and Functions of the SEC Practice Section," and PCPS § 1000, "Organizational Structure and Functions of the Private Companies Practice Section," for additional information about the membership requirements.

letter should include a section on the matters that resulted in the qualification. This section would ordinarily include an elaboration of the findings discussed in the qualifying paragraph of the report.

.05 In order to give appropriate consideration to the evidence obtained and to reach conclusions regarding the matters to be included in the letter of comments, the review team must understand the elements of quality control and exercise professional judgment. The exercise of professional judgment is essential because the significance of the evidence obtained during the review must be evaluated qualitatively and not primarily on a quantitative basis. Reviewers should take the necessary time to investigate findings and understand the underlying cause of the finding from the perspective of the quality control system.

.06 The review findings should be based on professional standards and not on personal preferences. Reviewers are occasionally surprised to find that some "generally accepted professional standards" are, in reality, only a preferred treatment by their firm.

.07 If any of the matters to be included in the letter were included in the letter issued in connection with the firm's previous peer review or quality review, that fact ordinarily should be noted. The letter may also include comments concerning actions taken by the reviewed firm.

## **Reporting Considerations**

### **Comments Regarding the Design of the Firm's Quality Control System**

.08 A design deficiency exists when the reviewed firm's quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective.

.09 Deficiencies in the design of the reviewed firm's quality control system should be included in the letter of comments if the design of the system resulted in one or more quality control objectives not being accomplished, and, as a result, a condition was created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, even though there was reasonable assurance of conforming with professional standards.

.10 When engagement deficiencies, particularly instances of nonconformity with professional standards, were attributable to such design deficiencies, the presence of the engagement deficiencies ordinarily should be noted in the comment along with the description of the design deficiency.<sup>2</sup>

### **Noncompliance with the Firm's Quality Control System**

.11 The best system of quality control can only be effective when the firm complies with that system. Although firms have good intentions for following their systems of quality control, other factors, such as lack of communication within the firm, lack of understanding of the system, and complacency can cause compliance problems.

.12 Instances of noncompliance with significant firm policies or procedures, either because of a lack of performance or a lack of adequate documentation of performance, should be included in the letter whenever the degree of such noncompliance created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, even though the degree of noncompliance was not such as to warrant a qualified report.

.13 Documentation deficiencies are deficiencies in which the reviewer has become convinced, through discussions with the members of the engagement team or other appropriate means, that the engagement team is

<sup>2</sup> For purposes of this section, professional standards refers to (a) currently effective pronouncements on professional standards issued by the American Institute of Certified Public Accountants (AICPA), (b) currently effective statements of financial accounting standards issued by the Financial Accounting Standards Board (FASB), (c) other materials issued by the AICPA or its committees and by the FASB, (d) government auditing standards, and (e) governmental accounting and financial reporting standards issued by the Governmental Accounting Standards Board.

knowledgeable about the matter under discussion and that the work in question was performed, but was not documented in the working papers.

.14 In assessing whether the degree of noncompliance created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, the review team should consider the **nature, causes, pattern, and pervasiveness** of the instances of non-compliance noted, as well as the implications for the firm's quality control system as a whole, not merely the importance in the specific circumstances in which the instances were observed. In order to do this, the review team should evaluate the instances of noncompliance, both individually and collectively, recognizing that adherence to certain policies or procedures is more critical to assuring conformity with professional standards than adherence to others. Accordingly, a higher degree of compliance should be expected for the more critical policies and procedures. However, noncompliance with quality control policies and procedures that are less critical to assuring conformity with professional standards may also be reportable in a letter of comments. For example, a higher degree of noncompliance with a hiring policy relative to the obtaining of background information might be tolerated than with a policy which requires an independent partner to review the report and accompanying financial statements prior to issuance of the report.

.15 When engagement deficiencies—particularly instances of nonconformity with professional standards—were attributable to instances of noncompliance with significant firm policies or procedures that are described in the letter, that information ordinarily should be included in the description of the finding.

.16 When the nature and degree of noncompliance at one or more offices of a multi-office firm were of such significance that a condition was created in which there was more than a remote possibility that the office would not conform with professional standards on accounting and auditing engagements, the review team should consider whether the matter should be included in the letter of comments, even though the degree of compliance for the remainder of the firm did not create such a condition with respect to the firm as a whole. In these instances, the identity of the office should not be revealed in the letter of comments.

### **Noncompliance with Membership Requirements**

.17 The review team should evaluate whether the firm complied in all material respects with each of the membership requirements. When the firm has not achieved a very high degree of compliance with a membership requirement—especially those directly related to the quality of performance on accounting and auditing engagements—that fact ordinarily should be included in the letter.<sup>3</sup>

### **Matters That Should Not Be Included in the Letter of Comments**

.18 In the course of its work, a review team may note matters that do not merit reporting in the letter of comments because such matters do not create a condition in which there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements. However, such matters may be communicated to the firm orally.<sup>4</sup> Examples of such matters are described in the following paragraphs.

### **Apparent Deficiencies in Design or Compliance Wholly or Partially Offset by Other Compensating Policies and Procedures**

.19 If a firm's quality control system does not include a procedure that the review team considers significant (such as the use of a financial statement disclosure or report review checklist) but it does include other compensating procedures (such as a second management-level preissuance review that is functioning effectively),

<sup>3</sup> *Ibid.*, footnote 2.

<sup>4</sup> Such matters may be communicated in a written letter of suggestions. This letter should be prepared on the letterhead of the team captain's firm since it is a private communication between the team captain and the reviewed firm only. A copy of this letter should not be included in the working papers.

the matter should not be included in the letter. The design deficiency is offset by other compensating procedures and no further action is required.

### **Recommendations Regarding the Firm's Quality Control Document**

.20 Reviewers may notice that a firm's quality control document does not provide for all circumstances that may arise. For example, a firm may not have established consultation policies relative to specialized industries because, at the present time, it has no clients in any specialized industries. Such matters may be discussed with the reviewed firm; however, they should not be included in the letter of comments.

.21 Reviewers may find that a firm does not comply with certain policies and procedures that, in practice, are excessive or redundant and not necessary to assure conformity with professional standards on accounting and auditing engagements. Such findings should be discussed with the firm, but they should not be included in the letter of comments.

### **Isolated Occurrences**

.22 Ordinarily, an isolated instance of noncompliance should not be included in the letter. However, the review team should evaluate the nature, significance, and cause of the isolated occurrence and its implications for the firm's quality control system, as a whole. The review team also should consider the results of its evaluation in conjunction with its other instances of noncompliance findings to determine if the item does, in fact, represent an isolated occurrence. For example, a single disclosure deficiency, an instance of noncompliance with a quality control procedure, and a single documentation deficiency may all appear to be isolated but, in fact, may have resulted from the same underlying cause. Such instances of noncompliance should be included in the letter of comments if they created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements.

### **Administrative Matters**

.23 Matters relating to poor firm administration or engagement inefficiencies ordinarily do not create a condition in which there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements. Therefore, such matters should not be reported in a letter of comments.

### **Points to Consider When Writing the Letter of Comments**

.24 The objectives of the letter of comments are more likely to be met when the letter is written in a clear, concise manner. The following points should be considered when writing a letter:

- a. If a qualified report is issued, the letter should be divided into two sections: (a) Matters that resulted in a modified (adverse) report, and (b) Matters that did not result in a modified (adverse) report. However, if the report is not qualified, do not include the phrase "matters that did not result in a modified (adverse) report."
- b. Use the format recommended in this section of "findings" and "recommendations for improvement." Separate, clearly captioned paragraphs should be used to report the findings and related recommendations.
- c. Include headings for each quality control element for which there is a comment.
- d. Items included in the letter should have a "systems" orientation. That is to say, identify the underlying weakness in the quality control system which caused a particular engagement deficiency to occur. It should not just describe the engagement deficiency.

- e. Identify the likely causes of the deficiencies (for example, describe the deficiencies as either design deficiencies or compliance deficiencies [performance or documentation]).
- f. Group findings caused by the same deficiency into a single comment. For example, if the review team notes various disclosure deficiencies that are caused by the failure to use a disclosure checklist or to perform other appropriate procedures, a single comment on the cause of all the disclosure deficiencies is preferable to numerous comments on individual deficiencies. The letter should not list each disclosure deficiency noted by the review team.
- g. Do not group unrelated findings into one comment. For example, disclosure deficiencies should be separated from comments regarding insufficient documentation unless they relate to the same quality control deficiency.
- h. Describe the findings in a complete manner, but avoid excessive or unnecessary detail in the letter of comments.
- i. Use general terms to indicate frequency of occurrence. Terms such as “in some instances” or “frequently” are preferable to the specific number of instances.
- j. Do not identify specific engagements, individuals, or offices by name or otherwise. For example, do not refer to “the firm’s SEC engagement”.
- k. Do not include personal preferences in the letter when they relate to procedures (such as engagement letters or time budgets) that are not required by the firm’s quality control system and are not essential to the reviewed firm’s conformity with professional standards on accounting and auditing engagements. Such matters may be communicated to the firm orally.
- l. Avoid references to specific technical standards, where possible. In most instances, a general reference to “professional standards” will suffice. If a reference to a specific technical standard is necessary, always include a complete description of the topic to which it relates.
- m. When a finding describes a performance deficiency where the firm may have departed from professional standards, include a sentence advising the reader whether additional actions are necessary on the engagement reviewed (“close the loop”). If corrective actions are necessary, a description of the actions taken or planned by the reviewed firm should be included. Ordinarily, the reviewer need not “close the loop” for documentation deficiencies.
- n. Use general terms when referring to purchased practice aids, instead of the names of specific publishers.
- o. If any of the matters to be included in the letter of comments were included in the letter issued in connection with the firm’s previous peer or quality review, this fact ordinarily should be noted in describing the matter. In this regard, comments should not be written in a general manner such that they may be “automatically repeated” in the documents issued in connection with the firm’s next review.
- p. Be careful not to overemphasize the use of standardized forms and checklists as a recommendation for improving the firm’s quality control system. Although forms and checklists may be helpful in many circumstances, their use will not cure all deficiencies. Think carefully about the cause of the deficiency and whether a more effective recommendation would provide a cure.
- q. Have someone in your firm unfamiliar with the findings on the review read the letter of comments before it is finalized. Ask them whether they understand the findings and recommendations *without asking any questions*.

## General Guidelines for Describing the Review Team’s Findings



.25 In describing a deficiency in the design of the reviewed firm's system or instances of noncompliance, the findings ordinarily can be described in the following manner:

- a. *Design deficiency*—(1) state what the system does or does not require; (2) if appropriate, state whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the *AICPA Professional Standards*, vol. 1, AU sections 390 and 561 or (b) lacked a reasonable basis under the standards for accounting and review services for the reports issued—were attributable to the design deficiency; and (3) describe the effect, if any, that the deficiency had on the financial statements issued.
- b. *Instances of noncompliance (performance or documentation)*—(1) state what the system requires; (2) state the frequency of noncompliance in general terms; (3) if appropriate, state whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the *AICPA Professional Standards*, vol. 1, AU sections 390 and 561, or (b) lacked a reasonable basis under the standards for accounting and review services for the reports issued—were attributable to the instances of noncompliance; and (4) describe the effect, if any, that the instances of noncompliance had on the financial statements issued.

.26 Under the above guidelines:

- a. A good way to start a letter of comment finding would be with the following words: "The firm's quality control policies and procedures. . . ." Then go on to state what the system does or does not require. This informs the reader of the status of the quality control system.
- b. The second sentence of the finding explains the result, such as "As a result. . . ." or "However, the firm did not always comply with these policies and as a result. . . ."
- c. The last sentence should "close the loop" if the finding relates to an engagement performance deficiency. Some examples of "closing the loop" are:
  - None of the missing or incomplete disclosures represented significant departures from professional standards.
  - None of the missing disclosures were of such significance to make the financial statements misleading.
  - We noted financial statements that did not include all of the disclosures required by generally accepted accounting principles, and, in one instance, financial statements that were materially misstated. The report on the latter financial statements has been recalled, and the financial statements are being revised.
  - We were satisfied that the firm performed the necessary procedures even though they were not documented.
  - We found one engagement in which, as a result of a lack of involvement by the engagement partner in planning the audit, the work performed on receivables and inventory did not appear to support the firm's opinion on the financial statements. As a result of this finding, the firm performed the necessary additional procedures to provide a satisfactory basis for its opinion.

.27 Appendix A illustrates how the foregoing matters may be covered in a letter of comments under the peer review programs.

.28 Appendix B illustrates how the foregoing matters may be covered in a letter of comments under the quality review program.

.29 Appendix C contains a checklist for reviewing drafts of letters of comments.

.30 Appendix D contains illustrative examples of poorly written letter of comments items.

## Illustrative Examples That Might Be Included in the Letter of Comments

.31 The rest of this section contains illustrative examples of items that might be included in letters of comments.

.32 A reviewer must evaluate whether the reviewed firm's system meets the objectives of the quality control standards applicable to its practice and whether the system was being complied with to provide the firm with reasonable assurance of conforming with professional standards. By considering the nature, cause, pattern and pervasiveness of a particular deficiency or group of deficiencies, a reviewer will decide whether a peer review report should be qualified, or a matter should be included in a letter of comments, communicated orally, or not communicated at all based on:

- a. The extent to which the designed system meets these objectives, and
- b. The instances of noncompliance with the policies and procedures established by the firm.

As a result, some of the examples may warrant the issuance of a qualified report in certain circumstances, while an unqualified report will be appropriate in other situations with the matter being included in the letter of comments or communicated orally.

## Independence

### Quality Control Objective

.33 Statement on Quality Control Standards No. 1 states that—

Policies and procedures should be established to provide the firm with reasonable assurance that persons at all organizational levels maintain independence to the extent required by the rules of conduct of the AICPA. Rule 101 of the rules of conduct contains examples of instances wherein a firm's independence will be considered to be impaired.<sup>5</sup>

### Illustrative Examples of Design Deficiencies

.34 Finding—The firm's independence policies and procedures have been appropriately communicated to the firm's professional personnel through its quality control document and through training programs. However, the firm's policies and procedures do not require that professional personnel be informed of all new attest engagements on a timely basis. Nonetheless, we were able to determine that the firm's independence had not been impaired on any attest engagements.

Recommendation for Improvement—The firm should, on a periodic basis, communicate in writing to all personnel new attest engagements accepted by the firm. This communication should also request that any personnel with a possible independence problem with respect to the new engagements contact the administrative partner immediately.

.35 Finding—The firm's independence policies and procedures do not require confirmation of the independence of another firm engaged to perform segments of an engagement. As a result, on the firm's only engagement where it was the principal auditor, there was no documentation indicating that the firm engaged to perform a segment of the engagement was independent of the client. Through discussions with firm personnel, it was determined that the firm had received an oral representation from the correspondent firm that it was independent.

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<sup>5</sup> AICPA Professional Standards, Vol. 2, QC § 10.07.

***Recommendation for Improvement***—We recommend that the firm's policies and procedures be revised to require that a written independence representation be obtained from other firms engaged to perform segments of an engagement when the firm is acting as the principal auditor.

**.36 Finding**—The firm's quality control policies and procedures require appropriate evaluation and resolution of all questions regarding independence. However, the firm does not require that such resolutions be documented. As a result, the firm did not document the resolution of several independence matters that were identified by its staff in their annual independence statements. However, we were able to satisfy ourselves that appropriate resolutions had been reached.

***Recommendation for Improvement***—We recommend that the firm's quality control policies and procedures be revised to require documentation of the resolution of independence questions.

## Illustrative Examples of Compliance Deficiencies

**.37 Finding**—The firm's quality control policies and procedures require that written independence representations be obtained annually from all partners and professional staff. During our review, we noted that several of the firm's professional staff had failed to sign such a representation. However, we did not note any instances where the firm was not independent with respect to the financial statements on which it reported.

***Recommendation for Improvement***—We recommend that the firm reemphasize its policy of obtaining annual independence representations from all professional personnel. The firm should also ensure that all professionals understand the firm's independence policies and that they disclose instances where they are not independent of the firm's clientele.

**.38 Finding**—The firm's quality control policies and procedures require an evaluation and resolution of all questions regarding independence, including a review of its accounts receivable for unpaid fees on continuing clients. Our review disclosed an instance where the firm issued a report on a client's financial statements before the prior year's fee had been paid. As a result, the independence of the firm was considered impaired. The firm has recalled its report and disclaimed an opinion with respect to the financial statements.

***Recommendation for Improvement***—The firm should reemphasize its policy of evaluating and resolving all independence issues. We also recommend that the firm's partners comply with the firm's policy of determining whether there are any prior year unpaid fees prior to issuance of any report on financial statements and, if so, to ensure that those fees are paid prior to the issuance of the report for the current year.

## Assigning Personnel to Engagements

### Quality Control Objective

**.39 Statement on Quality Control Standards No. 1 states that—**

Policies and procedures for assigning personnel to engagements should be established to provide the firm with reasonable assurance that work will be performed by persons having the degree of technical training and proficiency required in the circumstances. In making assignments, the nature and extent of supervision to be provided should be taken into account. Generally, the more able and experienced the personnel assigned to a particular engagement, the less is the need for direct supervision.<sup>6</sup>

## Illustrative Examples of Design Deficiencies

**.40 Finding**—The firm's quality control policies and procedures require that personnel assigned to an engagement have sufficient experience to perform the work assigned to them. However, the firm has not

<sup>6</sup> *Ibid.*, footnote 5.

established adequate procedures to identify staffing requirements for specific engagements. As a result, on several engagements reviewed, certain complex procedures performed by its personnel were not performed properly. The firm has subsequently performed alternative auditing procedures on the respective engagements.

**Recommendation for Improvement**—The firm should revise its policies and procedures to establish specific procedures for planning personnel needs for the overall firm and identifying staffing requirements for specific engagements. This may be accomplished by assigning one individual the responsibility for assigning personnel to engagements and for coordinating the resolution of scheduling problems.

**.41 Finding**—The firm's quality control policies and procedures do not require that the person responsible for assigning personnel to engagements consider special industry knowledge when assigning all levels of personnel to engagements. We noted that the firm relies heavily on the engagement partner's background and knowledge and does not give adequate consideration to the complexity or other requirements of the engagement when assigning other engagement personnel. On several engagements, we noted instances in which certain personnel did not have sufficient experience or training in the areas assigned to them. As a result, the firm did not properly report on several financial statements in a specialized industry. The firm has appropriately recalled and reissued all of the reports.

**Recommendation for Improvement**—The engagement partner should ascertain that personnel assigned to engagements have sufficient experience to perform the work assigned to them. When it is necessary to assign a person to perform a key role on an engagement who does not have sufficient experience to handle all the work assigned, the partner should document how the engagement team will compensate for this lack of experience.

## Illustrative Examples of Compliance Deficiencies

**.42 Finding**—The firm's quality control policies and procedures require that engagement partners evaluate planning schedules to ensure that the personnel assigned to an engagement have sufficient experience to perform the work assigned to them. However, on some engagements reviewed, the personnel below the partner level did not appear to have adequate experience to handle their work. As a result, certain procedures were not performed properly. The firm has considered the requirements of professional standards, and has determined that enough procedures had been performed in other areas to support the report issued on the financial statements.

**Recommendation for Improvement**—The firm should reemphasize its policies and procedures that require the partner on each engagement to ascertain that the personnel assigned to the engagement have sufficient experience to perform the work assigned to them. When it is necessary to assign a person to a key role on an engagement who does not have sufficient experience to handle all the work assigned to him or her, the engagement partner should document how the engagement team will compensate for this change from firm policy.

## Consultation

### Quality Control Objectives

**.43 Statement on Quality Control Standards No. 1 states that—**

Policies and procedures for consultation should be established to provide the firm with reasonable assurance that personnel will seek assistance to the extent required from persons having appropriate levels of knowledge, competence, judgment, and authority. The nature of the arrangements for consultation will depend on a number of factors, including the size of the firm and the levels of knowledge, competence, and judgment possessed by the persons performing the work.<sup>7</sup>

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<sup>7</sup> *Ibid.*, footnote 5.

## Illustrative Examples of Design Deficiencies

**.44 Finding**—Our review disclosed that the firm's consultation policies and procedures do not identify situations where, because of the nature or complexity of the subject matter, consultation ordinarily is needed. As a result, we noted a few instances where consultation was lacking when it would have been appropriate. These instances did not, however, result in the issuance of an inappropriate report.

**Recommendation for Improvement**—The firm should revise its quality control policies and procedures to specify the situations where, because of their nature or complexity, consultation is required. Such situations might include the following: (1) the application of newly issued technical pronouncements, (2) the application of a regulatory agency's filing requirements, (3) industries with special accounting, auditing, or reporting considerations, (4) emerging practice problems, and (5) cases where there is a choice among alternative generally accepted accounting principles.

**.45 Finding**—Our review disclosed that the firm's consultation policies and procedures do not provide procedures for resolving differences of opinion among engagement personnel and specialists. We noted no instances in which differences of opinion on practice problems had not been resolved to the satisfaction of all the parties involved, even though the individuals indicated that they did not have a clear understanding of the steps to be followed in such circumstances.

**Recommendation for Improvement**—We recommend that the firm revise its quality control policies and procedures to describe the procedures for resolving differences of opinion among engagement personnel and specialists. These procedures should then be communicated to all professional personnel.

**.46 Finding**—The firm's policies and procedures do not provide a means for ensuring that its library contains all relevant technical manuals. Our review disclosed that the firm's reference library contains outdated technical manuals and lacks industry audit and accounting guides in many of the industries in which the firm's clients operate. As a result, we noted a few instances where financial statement formats and disclosures deviated from these guides. However, none of these instances caused the statements to be misleading.

**Recommendation for Improvement**—We recommend that the firm's quality control policies and procedures be revised to ensure that the firm's library contains all relevant materials. The firm may wish to consider assigning one person the responsibility of ensuring that the library is comprehensive and up-to-date and that it includes all the industry auditing and accounting guides for the industries in which the firm's clients operate.

## Illustrative Examples of Compliance Deficiencies

**.47 Finding**—The firm's quality control document identifies areas and specialized situations where consultation and the documentation thereof is required. Our review disclosed several instances where consultation should have taken place, but there was no documentation of such consultation in the working papers. However, through discussions with engagement partners, we were able to satisfy ourselves that the staff had consulted as required.

**Recommendation for Improvement**—We recommend that the firm reemphasize the importance of documenting consultations to its professional staff. The firm should consider requiring the documentation to be reviewed and approved by the person consulted.

**.48 Finding**—The firm's quality control policies and procedures identify situations where, because of the nature or complexity of the subject matter, consultation ordinarily is needed. During our review, we noted a few instances where the firm appropriately consulted with outside sources; however, they failed to reconcile a difference between the advice of the outside source and the requirements of professional standards. As a result, the firm did not issue certain reports that are required in a regulated industry. Subsequent to the peer review, the firm issued those reports.

***Recommendation for Improvement***—We recommend that, in addition to consulting outside sources when necessary, the firm also consult the appropriate technical literature. If differences do arise between these sources, then the firm should take steps to reconcile the differences.

**.49 Finding**—The firm's quality control policies and procedures state that when experience is not available within the firm to resolve a practice question or problem, the engagement partner should consult with the AICPA or the state CPA society. Our review disclosed an instance where the firm did not have the experience required and did not consult with the AICPA or the state CPA society as required. In this instance, a partner designated as a specialist in another industry was consulted, but the advice rendered resulted in the misapplication of a generally accepted accounting principle. Since the amount involved did not make the financial statements misleading, the firm did not have to recall its report; the client has agreed, however, to adjust the financial statements in the next period in which they are prepared.

***Recommendation for Improvement***—We recommend that the firm reemphasize the importance of consulting the appropriate authorities. Designated specialists should also be reminded that they should not exceed their authority in consultative situations by providing advice in areas outside their expertise.

**.50 Finding**—The firm's policies and procedures require consultation in situations that involve complex subject matter or newly issued technical pronouncements. During our review, we noted several instances where the firm did not consult, but should have. The firm issued several reports on financial statements prepared on a basis of accounting prescribed by a regulatory agency for filing with that agency. However, the auditors' reports issued did not include all required wording to comply with professional standards. The reporting deficiencies were not of such significance to make the auditor's reports misleading.

***Recommendation for Improvement***—The firm should reemphasize its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources on complex or unusual matters.

## Supervision

### Quality Control Objective

**.51 Statement on Quality Control Standards No. 1 states that—**

Policies and procedures for the conduct and supervision of work at all organizational levels should be established to provide the firm with reasonable assurance that the work performed meets the firm's standards of quality. The extent of supervision and review appropriate in a given instance depends on many factors, including the complexity of the subject matter, the qualifications of the persons performing the work, and the extent of consultation available and used. The responsibility of a firm for establishing procedures for supervision is distinct from the responsibility of individuals to adequately plan and supervise the work on a particular engagement.<sup>8</sup>

### Illustrative Examples of Design Deficiencies

**.52 Finding**—The firm's policies and procedures require the engagement partner to review the firm's reports and the accompanying financial statements before they are issued. Although not required by professional standards, the firm does not use disclosure checklists as an aid in the review of financial statements. On several engagements reviewed, the financial statements did not include all the disclosures required by generally accepted accounting principles, particularly in the areas of related party transactions and leases. None of the missing disclosures were of such significance to make the financial statements misleading.

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<sup>8</sup> *Ibid.*, footnote 5.

**Recommendation for Improvement**—The firm should revise its quality control policies and procedures for ensuring that clients' financial statements include all relevant disclosures, such as by obtaining or developing comprehensive reporting and disclosure checklists. The firm should then amend its quality control policies and procedures to require that these checklists be completed by a member of the engagement team, reviewed by the engagement partner, and retained with the engagement working papers.

**.53 Finding**—The firm's quality control policies and procedures do not specify the working papers that should be reviewed by engagement partners or require any documentation of the partner's reviews. While reviewing engagements, we were unable to determine from the working papers the extent of the engagement partner's review. This did not result in the issuance of an inappropriate report.

**Recommendation for Improvement**—The firm should revise its quality control policies and procedures to specify the extent and nature of the engagement partner's review of work papers, and require documentation of the extent of the review. Such documentation can be in the form of initialing the working papers, file covers, or a partner review checklist.

**.54 Finding**—The firm's quality control policies and procedures require that all accounting and auditing engagements be properly planned. However, the firm does not provide specific procedures for documenting its engagement planning, including the consideration of audit risks and preliminary judgments about materiality limits. During the review of engagements, we noted several instances where we could not determine if the firm had considered preliminary judgments about materiality or its assessment of control risk. Through discussion with firm personnel, we satisfied ourselves that appropriate planning procedures had been performed.

**Recommendation for Improvement**—The firm should revise its policies and procedures to designate those matters that should be considered and documented during the planning process. These may include such areas as (1) current economic conditions affecting the client or the client's industry and the potential effect on the conduct of the engagement, (2) results of preliminary analytical procedures, (3) changes in the client's organization, (4) need for specialized knowledge, (5) proposed work programs, and (6) preliminary judgments about materiality levels. In establishing such policies, the firm should consider obtaining or designing a planning checklist or requiring the preparation of an overall planning memorandum.

**.55 Finding**—The firm requires that its model audit program be used on all audit engagements. However, the firm does not require that this program be tailored to cover the requirements of specialized industries, when necessary. Our review of engagements disclosed that, while the audit program had not been tailored to reflect special industry requirements, the procedures performed were appropriate and sufficient in the circumstances.

**Recommendation for Improvement**—The firm's planning policies and procedures should be expanded to include a review and, when necessary, tailoring of the audit program before the start of field work. The firm should consider obtaining or developing audit programs that are reflective of the specialized industries in which its clients operate.

**.56 Finding**—The firm does not provide its professional staff with a means of ensuring that all necessary procedures are performed on review and compilation engagements. As a result, the firm's review and compilation working papers did not include documentation of all the procedures required by firm policy or professional standards. However, we were able to satisfy ourselves that, in each case, sufficient procedures had been performed.

**Recommendation for Improvement**—Although not required by professional standards, the firm should consider obtaining or developing work programs for use on review and compilation engagements.

**.57 Finding**—The firm's policies and procedures do not require documentation of sample selections and evaluation of the results of sampling applications. During our review of engagements, we noted several instances where the firm performed non-statistical sampling, but did not document its considerations. Through discussions with firm personnel, we were able to satisfy ourselves that adequate procedures had been performed.

**Recommendation for Improvement**—The firm should revise its policies and procedures to require documentation of sample selections and evaluation of sampling results for statistical and nonstatistical sampling. This may be accomplished by obtaining or developing a standardized form that conforms to the guidance included in professional standards.

**.58 Finding**—The firm's quality control policies and procedures do not require documentation of its understanding of an entity's internal control structure on engagements for which it has assessed control risk at the maximum level. As a result, on several engagements reviewed there was no documentation in the working papers of the firm's understanding of the internal control structure of the client. However, we were satisfied that the firm has a good understanding of the client's internal control structure and that the audit was properly planned.

**Recommendation for Improvement**—The firm should revise its policies and procedures to require documentation of its understanding of internal control structures on all audit clients as required by professional standards. Such documentation may be in the form of a memorandum in the working papers.

**.59 Finding**—The firm has acquired accounting and auditing practice aids from a third-party provider. Our review disclosed that the firm has selectively used these materials in conjunction with materials from other sources without carefully reviewing the compatibility of the materials. As a result, on the audit engagements reviewed, the programs and checklists used did not address certain aspects of engagement planning, particularly preliminary analytical review, audit risk assessment, and consideration of an entity's internal control structure. These areas were not adequately documented in the engagement workpapers; however, we were able to satisfy ourselves that, in each case, these areas were appropriately considered in determining the nature and extent of auditing procedures.

**Recommendation for Improvement**—We recommend the firm review the materials obtained from the third-party provider and determine how they can best be implemented in the firm's accounting and auditing practice. The use of other materials for specialized areas should be blended with the new materials in such a way that engagement planning is adequately addressed.

**.60 Finding**—The firm's policies and procedures for reviewing accountants' reports and financial statements before issuance are not adequately designed to ensure compliance with professional standards. During our review, we noted that on several compilation and review engagements the accountant's report did not describe what responsibility, if any, the accountant was taking in regards to accompanying supplementary information. Also, we found some occasions where the supplementary information was not referenced to the accountant's report. In all cases, supporting working papers were present to indicate an appropriate level of service had been performed on the supplementary information. The firm's inspection program did identify this situation and use of a disclosure checklist was instituted subsequent to the year under review. No deficiencies in this area were noted subsequent to the introduction of the disclosure checklist.

**Recommendation for Improvement**—Although not required by professional standards, the firm should implement the use of reporting and disclosure checklists on all engagements. Continued monitoring of its use through the inspection process will help ensure adherence to the firm's quality control standards.

**.61 Finding**—The firm's policies and procedures require the engagement partner to review the accountant's or auditor's reports and accompanying financial statements before they are issued. However, the firm does not use other quality control materials as an aid in reviewing reports and financial statements, nor does it require a pre-issuance review of financial statements by a partner not associated with the engagement. During our review, we noted instances where the accountant's reports did not report on supplementary data included in the financial statements. In addition, an auditor's report prepared on a basis prescribed by a regulatory agency did not include the appropriate wording required by professional standards. None of the reporting deficiencies were misleading.

**Recommendation for Improvement**—The firm should reemphasize to its partners the importance of thoroughly reviewing auditor reports and accompanying financial statements before issuance. In addition, the firm should obtain or develop a comprehensive reporting checklist. The firm should then amend its quality control



policies and procedures to require its use on all engagements, and require the engagement partner to review the checklist prior to issuance of the accountants' or auditors' reports.

### **Illustrative Examples of Compliance Deficiencies**

**.62 Finding**—The firm's policies and procedures require the use of standard programs on audit engagements for the review of EDP controls. However, we noted that these programs were not always used. As a result, audit working papers did not include documentation of the firm's understanding of its clients' EDP controls. We were able to satisfy ourselves that a sufficient review of these controls had been performed in accordance with professional standards.

**Recommendation for Improvement**—The firm should reemphasize, to its supervisory personnel, its policy of using standard programs to review EDP controls. All partners should be advised to monitor compliance with this policy when reviewing audit working papers. Further, the firm should consider adding a step to its planning checklist to ensure that EDP programs have been completed.

**.63 Finding**—On several of the engagements reviewed, we noted that a review by a partner having no other responsibility for the engagement had not been performed as required by firm policy. On these engagements, we noticed that several disclosures required by generally accepted accounting principles were omitted from the financial statements. However, none of the missing disclosures were of such significance to make the financial statements misleading.

**Recommendation for Improvement**—The firm should comply with its policy of having a second partner review each engagement. To insure compliance with this policy, the firm should require that the second partner initial the report control sheet before the report is issued.

**.64 Finding**—The firm's audit programs outline steps for performing and documenting audit planning procedures for preliminary judgments about materiality levels, planned assessed level of control risk, analytical review procedures and conditions that may require extension or modification of tests. However, our review disclosed several instances where the firm's planning working papers did not include documentation for these areas. Through discussion with engagement personnel, we were able to satisfy ourselves that the engagement planning was adequate.

**Recommendation for Improvement**—The firm should remind all professionals of the matters to be considered when planning an audit engagement and of its documentation requirements. In addition, the firm may consider obtaining or developing a planning checklist to assist staff when planning an audit engagement and documenting the results thereof.

**.65 Finding**—The firm's policies and procedures require communication of reportable conditions noted during an audit to client management in accordance with professional standards. During our review, however, we noted instances where the communication of reportable conditions in internal accounting controls was not documented. Although the firm has represented that the reportable conditions were communicated orally to its client, there was no memorandum or notation in the working papers as required by professional standards.

**Recommendation for Improvement**—The firm should reemphasize the importance of adhering to professional standards regarding documentation of communication of reportable conditions. The firm should consider updating its audit programs to include required documentation procedures when communicating reportable conditions.

**.66 Finding**—The firm's quality control policies and procedures require completion of a reporting and disclosure checklist and a partner review of the firm's reports and accompanying financial statements prior to issuance. However, on several engagements reviewed, we noted inappropriate answers on these checklists. As a result, several financial statements did not include all the disclosures required by generally accepted accounting

principles. None of the missing disclosures were of such significance as to make the financial statements misleading.

**Recommendation for Improvement**—The firm should reemphasize the importance of using its comprehensive financial statement reporting and disclosure checklists. The partners of the firm should carefully review the report and disclosure checklist as part of the final financial statement review. In addition, a training session should be held to review with the staff the questions on the financial statement reporting and disclosure checklist. The firm should emphasize this item in its next inspection.

## Hiring

### Quality Control Objective

.67 Statement on Quality Control Standards No. 1 states that—

Policies and procedures for hiring should be established to provide the firm with reasonable assurance that those employed possess the appropriate characteristics to enable them to perform competently. The quality of a firm's work ultimately depends on the integrity, competence, and motivation of personnel who perform and supervise the work. Thus, a firm's recruiting programs are factors in maintaining such quality.<sup>9</sup>

### Illustrative Example of Design Deficiencies

.68 **Finding**—The firm's policies and procedures require that new hires possess certain specified qualifications. However, the policies do not require that the firm document its hiring decisions and the basis thereof. As a result, the personnel files did not always contain sufficient evidence confirming that the individuals hired possess the required qualifications. During our review of engagements, nothing came to our attention to indicate that the individuals hired by the firm did not possess the required qualifications.<sup>10</sup>

**Recommendation for Improvement**—We recommend that the firm revise its policies and procedures to require that hiring decisions be documented. The nature of the documentation may vary; however, at a minimum, it should document whether an individual meets the stated qualifications and, if not, why it is acceptable to deviate from the firm's stated hiring criteria in the situation.

### Illustrative Example of Compliance Deficiencies

.69 **Finding**—The firm's policies require that certain background information be obtained relative to the qualifications of prospective employees (including resumes, applications, college transcripts, and references). During our review, we noted numerous instances in which the personnel files for professional staff hired other than through the firm's college campus recruiting program did not contain evidence that the individual met the firm's stated qualifications.

**Recommendation for Improvement**—We recommend that the firm take greater care in ensuring that it complies more fully with its policies. The firm should assign an individual with appropriate experience to monitor the firm's compliance with its policy of obtaining background information on prospective employees.

## Professional Development

### Quality Control Objective

.70 Statement on Quality Control Standards No. 1 states that—

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<sup>9</sup> *Ibid.*, footnote 5.

<sup>10</sup> This example may not be applicable for smaller firms that have ongoing monitoring and involvement of senior personnel of the firm with respect to this element of quality control.

Policies and procedures for professional development should be established to provide the firm with reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned. Continuing professional education and training activities enable a firm to provide personnel with the knowledge required to fulfill responsibilities assigned to them and to progress within the firm.<sup>11</sup>

### Illustrative Examples of Design Deficiencies

**.71 Finding**—Although the firm's personnel were in compliance with the firm's and the section's continuing professional education requirement, an inadequate amount of the courses taken were in accounting and auditing related areas. As a consequence, we encountered instances in which emerging issues and matters relating to recent professional pronouncements had not been considered on engagements. In one such instance, the report was recalled and the accompanying financial statements were restated.

**Recommendation for Improvement**—The firm's policies and procedures should be revised to include a requirement that personnel participate in an appropriate amount of continuing professional education in accounting and auditing areas.

**.72 Finding**—The firm's policies and procedures require that professional staff participate in at least forty hours of continuing professional education courses and that the administrative partner compile, at the end of each educational year, a summary of professional education courses in which the professional staff participated. The policies and procedures do not require that the files be maintained during the period or that the files be reviewed periodically to determine whether the staff is in compliance with the firm's requirements. During our review, we noted a few individuals who had not participated in the required amount of continuing professional education courses during the year under review and were unable to make up the deficiency during the two-month grace period that followed the education year-end.

**Recommendation for Improvement**—We recommend that the firm revise its quality control policies and procedures to require that the administrative partner maintain current professional development records and that he review these periodically to determine whether the professional staff are complying with the firm's policies in this area.

**.73 Finding**—The firm's policies and procedures require that the firm maintain formal professional development records documenting each professional education course in which the professional staff participated. However, the policies and procedures do not specify the nature or extent of these records. Consequently, we noted incomplete documentation in the continuing professional education records, even though we were satisfied that the staff had participated in a sufficient amount of continuing professional education.

**Recommendation for Improvement**—We recommend that the firm's policies and procedures be revised to require that records be maintained for each professional in the firm for the five most recent educational years. Furthermore, the policies should require that the following information be maintained relative to each continuing professional education activity for which credit is claimed:

- Sponsoring organization
- Location of program by city and state
- Title of program and/or description of content
- Dates attended or completed
- Continuing professional education hours claimed

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<sup>11</sup> AICPA Professional Standards, Vol. 2, QC § 10.07.

**.74 Finding**—The firm's policies and procedures require that professional staff participating in governmental engagements meet the continuing education requirements established both by the section and Government Auditing Standards. However, we noted that the firm has not specifically identified these staff members and monitored their compliance with government auditing standards. As a result, we noted several individuals who had not completed sufficient professional education courses to comply with government auditing standards.

**Recommendation for Improvement**—The firm's professional education director should identify and monitor those individuals participating in governmental engagements to ensure that the government auditing standards continuing professional education requirements are met.

## Illustrative Examples of Compliance Deficiencies

**.75 Finding**—Our review disclosed that professional staff had not received copies of certain professional pronouncements issued during the past year as required by firm policy. During our review, we did not note any significant departures from professional standards as a result of this deficiency.

**Recommendation for Improvement**—In order to keep professional staff current on financial accounting, auditing and reporting matters, we recommend that all professional staff receive copies of professional pronouncements as soon as they are available to the firm for distribution.

## Advancement

### Quality Control Objective

**.76 Statement on Quality Control Standards No. 1 states that—**

Policies and procedures for advancing personnel should be established to provide the firm with reasonable assurance that those selected for advancement will have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume. Practices in advancing personnel have important implications for the quality of a firm's work. Qualifications that personnel selected for advancement should possess include, but are not limited to, character, intelligence, judgment, and motivation.<sup>12</sup>

## Illustrative Example of Design Deficiencies

**.77 Finding**—The firm has not established policies and procedures regarding the qualifications necessary for each level of responsibility within the firm and for the advancement of personnel. However, we did not encounter any situation where the firm's personnel did not have the qualifications necessary to fulfill their responsibilities.<sup>13</sup>

**Recommendation for Improvement**—We recommend that the firm establish and document the qualifications necessary for each level of responsibility and create a review structure to ascertain that personnel meet the firm's requirements before they are promoted.

## Illustrative Example of Compliance Deficiencies

**.78 Finding**—The firm's policies and procedures require that personnel be evaluated by their immediate supervisor whenever they participate forty hours or more on an engagement. Our review of the personnel files indicates that this policy is not always being adhered to for management level personnel, even though overall annual evaluations are being performed.<sup>14</sup>

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<sup>12</sup> *Ibid.*, footnote 11.

<sup>13</sup> See footnote 10.

<sup>14</sup> See footnote 10.

**Recommendation for Improvement**—Because it is important that all personnel, regardless of level, be provided with constructive recommendations for improvements in their performance so that they can implement timely corrective actions and, thus, progress within the firm, we believe that the firm should comply with its policy more fully.

## Acceptance and Continuance of Clients

### Quality Control Objective

.79 Statement on Quality Control Standards No. 1 states that—

Policies and procedures should be established for deciding whether to accept or continue a client in order to minimize the likelihood of association with a client whose management lacks integrity. Suggesting that there should be procedures for this purpose does not imply that a firm vouches for the integrity or reliability of a client, nor does it imply that a firm has a duty to anyone but itself with respect to the acceptance, rejection, or retention of clients. However, prudence suggests that a firm be selective in determining its professional relationships.<sup>15</sup>

### Illustrative Examples of Design Deficiencies

**.80 Finding**—The firm's policies and procedures do not require communication with the predecessor auditor of a prospective client as required by professional standards. During our review, we noted an instance where there was no documentation of communication with a predecessor auditor. However, we were informed by the firm's personnel that the required communication had been made orally.

**Recommendation for Improvement**—The firm should revise its quality control document to require communication with predecessor auditors and to require that such communications be documented.

**.81 Finding**—The firm's quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance as clients, and for the periodic evaluation of all clients to ensure that the firm's criteria for client continuance are met. However, the firm does not require any specific documentation of such evaluations and we noted no documented evidence that evaluations had been performed. We were informed by the firm's partners that they had complied with their policies and procedures, but had not documented this information.

**Recommendation for Improvement**—The firm's quality control policies and procedures should be revised to require documentation of its acceptance and continuance procedures and decisions. The firm should revise and implement client acceptance and continuance forms to ensure that all appropriate factors are considered in each case.

### Illustrative Examples of Compliance Deficiencies

**.82 Finding**—The firm's quality control policies and procedures specify criteria that should be considered when making client continuance decisions and requires that such decisions be documented. During our review, we were unable to determine whether client continuance decisions had been made in accordance with the firm's policies. However, we were informed by the firm's partners that continuance decisions are discussed informally and that continuance is assumed by staff in the absence of instructions to discontinue service to the client.

**Recommendation for Improvement**—The firm should comply with its policies and procedures by periodically evaluating its existing clients in accordance with the criteria set forth in its quality control document. The firm should also document such evaluations and decisions as required by firm policy, possibly through the use of a standardized form that could be examined as part of the planning process.

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<sup>15</sup> AICPA Professional Standards, Vol. 2, QC § 10.07.

**.83 Finding**—The firm's quality control policies and procedures regarding new client acceptance require the preparation and approval of a new client acceptance form to document the considerations and conclusions. During our review, we noted that the form was not prepared for all new clients. However, we were informed by the firm's partners that appropriate considerations had been made in each case.

**Recommendation for Improvement**—To ensure that all appropriate facts are considered when accepting a new client, the firm should comply with its policy of documenting its considerations and conclusions by completing the new client acceptance form for each new client.

## Inspection

### Quality Control Objective

**.84 Statement on Quality Control Standards No. 1** states that—

Policies and procedures for inspection should be established to provide the firm with reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied. Procedures for inspection may be developed and performed by individuals acting on behalf of the firm's management. The type of inspection procedures used will depend on the controls established by the firm and the assignment of responsibilities within the firm to implement its quality control policies and procedures.<sup>16</sup>

### Illustrative Examples of Design Deficiencies

**.85 Finding**—The firm's quality control policies and procedures do not require that a formal annual inspection program be performed. However, the firm does require pre-issuance reviews of each audit review and compilation report, the accompanying financial statements and the related working papers by both the engagement partner and a partner or manager who is not otherwise associated with the engagement. The firm's procedures do not require an annual review of the firm's compliance with each element of quality control, nor do they require a written summary of deficiencies identified or corrective actions taken or planned to be taken.

**Recommendation for Improvement**—The firm should revise its quality control policies and procedures to require that a formal annual inspection be performed. The firm's inspections should address each of the elements of quality control in addition to engagements. The quality control policies and procedures should also require the preparation of written inspection reports that summarize the deficiencies identified and document the actions taken or planned to prevent similar deficiencies from occurring in the future.

**.86 Finding**—The firm's inspection policies and procedures omit specialized industry knowledge as criteria in selecting inspectors. As a result, a manager reviewed several engagements in a specialized industry with which the manager had little knowledge and failed to identify several omitted procedures. Our review of engagements in this industry, however, did not disclose any significant departures from professional standards.

**Recommendation for Improvement**—The firm should revise its quality control policies and procedures to include technical expertise and relevant specialized industry knowledge as a criteria in selecting inspectors. In doing so, the firm can implement appropriate corrective actions for inspection findings.

**.87 Finding**—The firm's inspection policies and procedures do not require the preparation of memoranda summarizing the results of the firm's annual inspection program and the implementation of corrective actions. As a result, the firm did not document its monitoring of the actions taken in response to the inspection findings.

**Recommendation for Improvement**—The firm should revise its quality control policies and procedures to require the preparation of an inspection memorandum summarizing findings, indicating recommended corrective

<sup>16</sup> *Ibid.*, footnote 15.

actions, and setting timetables for completing the corrective actions. At a minimum, the memorandum should be distributed to key management personnel.

### **Illustrative Examples of Compliance Deficiencies**

**.88 Finding**—The firm's policies and procedures require that findings on engagement reviews be summarized so that management can consider what types of actions, if any, are necessary. However, the firm did not summarize inspection findings from engagement reviews on the most recent inspection, even though each engagement partner considered and responded to findings on their individual engagements.

**Recommendation for Improvement**—The firm should comply with its policy of summarizing inspection findings, considering the overall systems' implication of these findings and documenting management's monitoring of the actions taken.

**.89 Finding**—The firm's quality control document requires that annual inspections be performed in accordance with the AICPA's "Guidelines on How to Perform an Internal Inspection." In the most recent inspection, however, the firm did not review certain elements of quality control.

**Recommendation for Improvement**—The firm should comply with its quality control policies and procedures by using all of the recommended forms in the AICPA's "Guidelines on How to Perform an Internal Inspection." The use of these forms should result in the performance of all the required inspection procedures, including the review of all of the functional areas of quality control.

**.90 Finding**—The firm's quality control policies and procedures require timely annual inspections. Our review revealed that the reports on the past two inspections were dated almost one year after the particular inspection year-end. As a result, the firm did not implement the recommended corrective actions prior to beginning subsequent engagements.

**Recommendation for Improvement**—To maximize the benefits that can be gained from a timely inspection, the firm should perform its inspections in a timely manner so that corrective actions can be implemented before procedures and engagements are performed in the subsequent year.

**.91 Finding**—The firm has a written quality control document that requires the firm to perform annual internal inspections. However, during our review, we noted that the firm did not perform annual inspections as required. If an adequate and timely inspection had been performed each year, many of the departures from professional standards that were noted during our review probably would have been identified and corrected.

**Recommendation for Improvement**—The firm should comply with its quality control policies and procedures regarding inspection.

## **Membership Requirements**

### **PCPS & SECPS Membership Requirements**

**.92 Finding**—The firm's policies and procedures require that each professional in the firm participate in at least 120 hours of continuing professional education every three years, but not less than 20 hours each year. Our review disclosed that, for the period ended June 30, 19XX, several of the firm's management personnel failed to comply with the three-year requirement.

**Recommendation for Improvement**—The firm should establish procedures to monitor compliance, on a timely basis, with the section's continuing education requirements.

**.93 Finding**—The section requires that all professional staff, including CPAs and non-CPAs, participate in at least 120 hours of continuing professional education every three years with a minimum of 20 hours per year. The firm's policy is not consistent with this requirement, since its policy states that only CPAs are required to

participate in the hours prescribed by the section. As a result, a significant number of professionals did not comply with the section's membership requirements since the firm did not monitor compliance by professionals who are not CPAs.

**Recommendation for Improvement**—The firm should expand its continuing professional education requirements to encompass both CPAs and other professionals.

**.94 Finding**—The firm's quality control policies and procedures are not consistent with the section's membership requirements which require each member firm to ensure that a majority of the members of the firm are CPAs, and that the firm can legally engage in the practice of public accounting. Although the firm is qualified to practice under state law, only one of the partners is a CPA. This does not meet the majority requirement.

**Recommendation for Improvement**—The firm should revise its policies and procedures to ensure compliance with all membership requirements. In addition, the firm should take steps necessary to be in compliance with this membership requirement as soon as possible.

## **SECPS Membership Requirements**

**.95 Finding**—The section's membership requirements require that each member firm establish policies and procedures for a concurring review of the report and financial statements by a partner other than the audit partner-in-charge of an SEC engagement before the issuance of an audit report on the financial statements of an SEC engagement. These policies and procedures should cover such areas as (1) qualifications of the concurring reviewer, (2) nature, extent, and timing of the review, and (3) documentation required evidencing that the reviewer had complied with the firm's policies and procedures for the concurring review. During our review of the working papers on these types of clients, we found inconsistency in the extent of the review and in the types of documentation contained in the working papers. However, we were satisfied that a comprehensive review was performed by qualified individuals.

**Recommendation for Improvement**—We recommend that the firm's quality control policies and procedures be revised to include specific requirements regarding concurring review including the nature and extent of the review and the types of documentation required. This may include the implementation of a concurring reviewers' checklist and/or a requirement that the reviewer initial all memoranda and selected working papers, in addition to the report and financial statements.



**.96 Appendix A****Sample Letter of Comments for the Peer Review Programs**

[AICPA or Other Appropriate Letterhead]

September 15, 19\_\_

[Should correspond with date of report]

To the Partners

Jones, Smith &amp; Co.

We have reviewed the system of quality control for the accounting and auditing practice of Jones, Smith & Co. (the firm) in effect for the year ended June 30, 19\_\_, and have issued our report thereon dated September 15, 19\_\_ (which was modified as described therein).<sup>\*</sup> This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon your system of quality control and your compliance with it and with the membership requirements of the (private companies practice section or SEC practice section) of the AICPA Division for CPA Firms (the section). Our review was performed in accordance with the standards promulgated by the peer review committee of the section; however, our review would not necessarily disclose all weaknesses in the system or lack of compliance with it or with the membership requirements of the section because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the procedure may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

***Matters That Resulted in a Modified Report \*\******Supervision**

**Finding**—Our review disclosed that the firm's quality control policies and procedures do not provide a means of ensuring that the financial statements reported on include all relevant disclosures. As a result, we noted financial statements that did not include all of the disclosures required by generally accepted accounting principles, and in one instance, financial statements that were materially misstated. The report on the latter financial statements has been recalled, and the financial statements are being revised.

**Recommendation for Improvement**—The firm should adopt procedures to ensure that clients' financial statements include all relevant disclosures, such as by obtaining or developing comprehensive financial statement disclosure and reporting checklists.

**Consultation**

**Finding**—Our review disclosed that the firm's quality control policies and procedures for consultation with designated parties outside the firm were not followed on two engagements. One engagement, discussed above, involved a material error in a financial statement, on which the firm had issued an unqualified report. On the other engagement, the firm had issued an unqualified audit report when it was not independent. In both cases, we concluded that adherence to the firm's consultation policies and procedures probably would have prevented the issuance of these reports, which the firm has since recalled.

**Recommendation for Improvement**—The firm should (1) reemphasize the importance of its quality control policies and procedures for outside consultation, (2) more closely monitor compliance with its consultation policies

<sup>\*</sup> To be included if the review team issues a modified or adverse report. The wording should be tailored to fit the circumstances.

<sup>\*\*</sup> This caption is to be used only if a modified or adverse report has been issued and should be tailored to fit the circumstances.

and procedures during the preissuance review of engagements, and (3) emphasize these policies and procedures in its next inspection.

### ***Matters That Did Not Result in a Modified Report***

#### **Client Acceptance**

***Finding***—The firm's quality control policies and procedures require that the managing partner approve the acceptance of new clients and document such approval. We noted several instances where this had not been done. The letter of comments issued in connection with the firm's prior peer review also noted that this policy had not been followed in a number of instances.

***Recommendation for Improvement***—We recommend that the firm revise its new client information form, as it indicated it would in its prior letter of response, to provide an appropriate place for the managing partner's signature evidencing approval. In addition, an account number should not be assigned to a new client until this form has been completed.

#### **Independence**

***Finding***—The firm's quality control policies and procedures require appropriate evaluation and resolution of all questions regarding independence. However, the firm does not require any specific documentation of such resolutions. We noted that there was no documentation supporting such resolutions.

***Recommendation for Improvement***—We recommend that the firm amend its quality control policies and procedures to require documentation of the resolution of independence questions.

#### **Supervision**

***Finding***—Our review disclosed that on several audit engagements the firm's standard programs for testing related-party transactions and subsequent events were not used as required by firm policy. However, we were able to satisfy ourselves that sufficient audit procedures had been performed in these areas.

***Recommendation for Improvement***—The firm should reemphasize its policy of using the standard programs as required by its auditing and accounting manual.

***Finding***—The firm's quality control policies and procedures require the use of standard audit and work programs. However, in one recently acquired office of the firm, representing a small portion of the firm's practice, the firm's standard audit and work programs have not been used consistently.

***Recommendation for Improvement***—The firm should reemphasize the need to comply with its policies and procedures. In addition, a partner from another office should be assigned the responsibility for training personnel of the acquired office in the use of the firm's standard programs.

#### **Continuing Professional Education**

***Finding***—The firm's quality control policies, and the membership requirements of the section, require each professional to obtain at least 20 hours of continuing education annually and at least 120 hours every three years. However, the firm does not have adequate procedures to monitor compliance with this policy. As a result, our review disclosed that five of the firm's sixty professionals had not participated in the required number of hours of qualifying continuing education.

***Recommendation for Improvement***—The firm should make sure that the five professionals referred to above obtain a sufficient number of continuing education hours to meet the section's annual and three-year requirements for its current educational year.

The foregoing matters were considered in determining our opinion set forth in our report dated September 15, 19\_\_\_\_, and this letter does not change that report.

<hr/> William Brown Team Captain	<div>for review by a committee-appointed review team</div>
	or
Johnson & Co.	<div>for review by a firm</div>
	or
<hr/> William Brown Team Captain	<div>for review by an association or state CPA society-sponsored review team</div>

**.97 Appendix B****Sample Letter of Comments for the Quality Review Program**

[AICPA or Other Appropriate Letterhead]

September 15, 19\_\_\_\_

[Should correspond with date of report]

To the Partners

Able, Baker &amp; Co.

or

To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [Name of Firm] (the firm) in effect for the year ended June 30, 19XX, and have issued our report thereon dated August 31, 19XX (, which was modified as described therein). This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon the firm's system of quality control and its compliance with that system. Our review was performed in accordance with standards for on-site quality reviews established by the American Institute of Certified Public Accountants; however, our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the procedure may become inadequate because of changes in conditions or that the degree of compliance with the procedure may deteriorate.

***Matters That Resulted in a Modified Report \****

**Finding**—The firm's quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but emphasize the importance of proper planning to the conduct of the engagement. We found one engagement in which, as a result of a lack of involvement, including timely supervision, by the engagement partner in planning the audit, the work performed on receivables and inventory did not appear to support the firm's opinion on the financial statements. (As a result of this finding, the firm performed the necessary additional procedures to provide a satisfactory basis for its opinion.)

**Recommendation**—The firm's quality control policies and procedures should be reviewed to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program.

***Matters That Did Not Result in a Modified Report \****

**Finding**—Our review disclosed several engagements for which financial statement disclosures were missing or incomplete. None of the missing or incomplete disclosures represented significant departures from professional standards, but in each case we noted that the firm had not complied with its policy requiring completion of a financial reporting and disclosure checklist.

**Recommendation**—The firm should comply with its policy requiring completion of its financial reporting and disclosure checklist. We recommend that the firm emphasize the importance of this policy to all personnel in its training sessions.

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\* Include these captions only when the report's modified.

**Finding**—Our review disclosed that the firm's reference library contains outdated editions of industry audit and accounting guides for industries in which some of the firm's clients operate. As a result, we found a few instances where financial statement formats departed, although not in material respects, from current practice.

**Recommendation**—The firm should assign the responsibility for ensuring that the library is comprehensive and up to date to one individual. That individual should monitor new publications, determine which should be obtained, and periodically advise professional personnel of additions to the library.

The foregoing matters were considered in determining our opinion set forth in our report dated August 31, 19XX, and this letter does not change that report.

<hr/> William Brown Team Captain	<div>for review by a committee-appointed review team</div>
	or
Johnson & Co.	<div>for review by a firm</div>
	or
<hr/> William Brown Team Captain	<div>for review by an association or state CPA society-sponsored review team</div>

**.98 Appendix C****Checklist for Reviewing Drafts of Letters of Comments**

	Yes	No *
1. Do the first three and last paragraphs of the letter of comments (LOC) conform with the standard LOC included in the applicable standards? *	_____	_____
2. If the report is qualified, is the first section of the report entitled "Matters that Resulted in a Modified (Adverse) Report?"	_____	_____
3. Are headings included for each quality control element on which there is a comment?	_____	_____
4. Is each finding and recommendation clearly captioned?	_____	_____
5. Are findings written with a systems orientation?	_____	_____
6. Are findings caused by the same quality control deficiency grouped into a single comment?	_____	_____
7. Are general terms used to indicate frequency of occurrence rather than specific numbers?	_____	_____
8. Have you avoided identifying, by name or otherwise, specific engagements, individuals, or offices?	_____	_____
9. Are comments written in a succinct, but complete manner (without excessive details)?	_____	_____
10. Are the findings clearly understandable to someone not familiar with the specific engagement and functional area findings?	_____	_____
11. Are findings written in a specific enough manner so that the comment will not automatically be repeated on the next review?	_____	_____
12. Have personal preference items been excluded from the letter?	_____	_____
13. Is the letter of comments free of all references to specific technical standards?	_____	_____
14. Have third-party practice aids been referred to in general terms?	_____	_____
15. Has the "loop been closed" in all cases in which performance deficiencies are mentioned?	_____	_____
16. Are repeat comments clearly identified?	_____	_____

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\* All no answers should be resolved before the letter of comments is finalized.

**.99 Appendix D****Examples of Poorly Written Letter of Comments Items**

This appendix contains illustrative examples of poorly written items included in letters of comments. Each example includes a critique of the deficiencies noted. Reviewers should focus on the points included in the critiques. It is important to remember that a well-written letter of comments enhances the peer or quality review documents.

**.100 Example 1:**

In one audit engagement, the firm's files did not contain a letter from the client's attorney as to litigation, etc. In another engagement, attorney responses were dated several weeks prior to the date of the auditor's report.

The firm should add a step to its audit programs to require documentation of the procedures performed to obtain updated responses to attorney letter replies received prior to the end of field work.

**Critique of Example 1:**

- The finding does not indicate what the firm's quality control policies and procedures do or do not require regarding the obtaining of letters of inquiry from a client's attorney. Further, the finding does not describe the implications of the deficiencies noted.
- The finding is written in an engagement-oriented format rather than a systems-oriented format. As described in the guidance material, the letter of comments should include comments regarding the design of the reviewed firm's system of quality control or its compliance with that system.
- The finding cites the exact number of instances noted rather than using general terms to indicate frequency, such as "in some instances," "frequently," or "an isolated case."
- The example does not include captions highlighting the findings and recommendations.

**Suggested Wording for Example 1:**

**Finding**—The firm's quality control policies and procedures require obtaining letters of inquiry from a client's attorney for all audit engagements. However, we noted instances where the attorney's letters had not been obtained or were dated several weeks prior to the auditor's report. Subsequent to our review, the firm has requested and received the missing attorney letters and received updated responses for the attorney letters that were dated prior to the date of the auditor's report.

**Recommendation for Improvement**—The firm should reemphasize the importance of complying with its policy of obtaining attorney letters for all auditing engagements. In addition, during their review of engagement working papers, supervisory personnel should ensure that attorney letters are dated as close to the completion of fieldwork as is practicable in the circumstances. The partners of the firm should ensure that these documents are reviewed as part of their review of working papers.

**.101 Example 2:**

In a few instances, the financial statements did not disclose the carrying basis of property, plant and equipment and whether or not any of the assets were donated.

**Critique of Example 2:**

- The finding does not have a recommendation.

- The finding does not indicate the effect on the financial statements, if any, as a result of the deficiencies noted, and it is not clear why the finding is important.
- The finding does not indicate the likely cause of the deficiency (for example, inadequate financial statement disclosure and reporting checklist or lack of appropriate partner review).

**Suggested Wording for Example 2:**

**Finding**—The firm's quality control policies and procedures require the completion of a reporting and disclosure checklist for all audit engagements. However, on several engagements reviewed the financial statements did not include all the disclosures required by generally accepted accounting principles. None of the missing disclosures were of enough significance to make the financial statements misleading.

**Recommendation for Improvement**—The firm should reemphasize the importance of thoroughly completing its comprehensive financial statement reporting and disclosure checklists. The partners should carefully review the report and disclosure checklist as part of the final financial statement review.

**.102 Example 3:**

**Finding**—Every engagement we reviewed was determined to be in compliance in all material respects with professional standards. However, in a number of engagements reviewed, there were inadequate disclosures regarding related party matters.

**Recommendation for Improvement**—All material related party transactions should be disclosed in the financial statements as required by FASB Statement No. 57.

**Critique of Example 3:**

- The finding and recommendation do not indicate what the systems implications of the deficiency are. Why were the disclosures inadequate? Were firm policies followed?
- Generally, a finding should include a conclusion as to the effect, if any, the deficiencies had on the financial statements reviewed.
- Recommendations that essentially say "follow professional standards," as in the example, are not helpful to the firm. Instead, recommendations should address the underlying cause of the deficiency.
- The recommendation refers to a specific technical pronouncement without a clear indication of the nature of the standard.

**Suggested Wording for Example 3:**

**Finding**—The firm's policies and procedures require the completion of financial statement disclosure checklists for all audit, review and full disclosure compilation engagements. However, our review disclosed several instances where the financial statements did not include all the disclosures required by generally accepted accounting principles, particularly in the area of related party matters. The incomplete disclosures were not of such significance as to make the financial statements misleading.

**Recommendation for Improvement**—The firm should reemphasize its policy of using disclosure checklists on all full disclosure engagements. The partners should carefully review the disclosure checklist as part of the final financial statement review. In addition, a training session should be held to review with staff the disclosure requirements for related party transactions.

**.103 Example 4:**



**Finding**—The firm's procedural documents do not provide guidance with respect to audit sampling procedures, or analytical review procedures.

**Recommendation for Improvement**—The firm should include, in its accounting manual, guidance on audit sampling procedures and analytical review procedures.

#### **Critique of Example 4:**

- The finding does not describe the engagement deficiencies, if any, resulting from this design deficiency.

#### **Suggested Wording for Example 4:**

**Finding**—The firm's quality control policies and procedures provide for audit sampling procedures and analytical review procedures. However, the firm has not established procedures for performing or the documentation required for these areas. As a result, we noted instances where the firm performed nonstatistical sampling, but did not document its considerations. In addition, on several engagements reviewed, there was no documentation of analytical review procedures. Through discussions with firm personnel, we were able to satisfy ourselves that adequate procedures had been performed.

**Recommendation for Improvement**—The firm should revise its policies and procedures to require documentation of sample selections and evaluation of sampling results. This can be accomplished by obtaining or developing a standardized form that conforms to the guidance included in professional standards. In addition, the firm should revise its policies to require specific analytical review procedures and the documentation of such procedures.

#### **.104 Example 5:**

**Finding**—The firm does not use planning programs and, as a result, planning procedures are not always fully documented in engagement working papers. On certain of the engagements reviewed, there was no documentation of the planning aspects relative to preliminary judgments about materiality levels for audit purposes, assessed level of control risk, and other audit planning considerations.

**Recommendation for Improvement**—The firm should develop or obtain a planning program for use on each engagement.

#### **Critique of Example 5:**

- The finding does not indicate what the system does or does not require regarding audit planning. Also, the finding does not indicate whether the reviewer believes sufficient planning procedures were performed on the engagements reviewed.
- A recommendation for a "canned" program or checklist is not particularly helpful, as it is too specific. Rather, the recommendation should indicate that the firm should establish policies or procedures to ensure that planning considerations are documented, such as by developing or obtaining a planning checklist that deals with the areas cited. The recommendation might also note that proper planning may reduce audit time overall.

#### **Suggested Wording for Example 5:**

**Finding**—The firm's quality control policies and procedures require documentation of audit planning considerations. The firm does not require the use of planning programs, checklists or other appropriate means of documenting such planning considerations. During our review, we noted there was no documentation of the planning aspects relative to preliminary judgments about materiality levels for audit purposes, assessed level of control risk, and other planning considerations. However, we were able to satisfy ourselves that, in each case, these areas were appropriately considered in determining the nature and extent of auditing procedures.

**Recommendation for Improvement**—The firm should establish policies and procedures to ensure that planning considerations are documented, such as by obtaining or developing a planning checklist for use on audit engagements.

**.105 Example 6:**

**Finding**—The firm's quality control policies and procedures require all working papers to be reviewed by someone at a higher, or at least the same, level.

**Recommendation for Improvement**—The firm should reemphasize to its professional personnel the importance of reviews. This requirement could be added to the partner's review checklists to ensure compliance.

**Critique of Example 6:**

- The finding does not indicate that the firm did not comply with its policy and, if not, whether this resulted in any engagement deficiencies.

**Suggested Wording for Example 6:**

**Finding**—On several of the engagements reviewed, we noted that a review by a partner having no other responsibility for the engagement had not been performed as required by firm policy. On these engagements, we noticed that several disclosures required by generally accepted accounting principles were omitted from the financial statements. However, none of the missing disclosures were of such significance to make financial statements misleading.

**Recommendation for Improvement**—The firm should comply with its policy of having a second partner review each engagement. To ensure compliance with this policy, the firm should require that the second partner initial the report control sheet before the report is issued.

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## QRP Section 4000

# ON-SITE QUALITY REVIEWS FOR FIRMS THAT PERFORM AUDITS

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In performing quality reviews, review teams must complete *all* relevant programs and checklists issued by the AICPA Quality Review Executive Committee in a professional manner. Failure to do so creates a presumption that the review has not been performed in conformity with the standards governing the program.

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# QRP Section 4100

## *Instructions to Firms Having an On-Site Quality Review*

### General

.01 An on-site quality review is required for all firms that perform one or more audits of historical or prospective financial statements because of the public interest in the quality of such audits and the importance to the accounting profession of maintaining the quality of those services. On-site quality reviews are administered by state CPA societies that elect to participate in the program or by the AICPA Quality Review Division (the *administering entity*). The appropriate entity will contact your firm before the beginning of the calendar year in which your firm is scheduled to have an on-site review to begin to make arrangements for the conduct of the review. Well before then, you should have read the applicable sections of *Standards for Performing and Reporting on Quality Reviews* issued by the AICPA Quality Review Executive Committee, as well as these instructions and the quality control policies and procedures questionnaire and review guidelines applicable to your size firm.

.02 These instructions have been designed for reviews conducted by committee-appointed review teams. However, they should be helpful in reviews conducted by firms or with the assistance of an association of CPA firms. Also, completing the procedures listed under "Prior to the Review" should expedite the conduct of the review.

.03 It is the reviewed firm's responsibility to be certain that the quality control policies and procedures in effect for the period covered by the review have provided the firm with reasonable assurance that it has met its responsibility to provide accounting and auditing services that conform with professional standards. Also, firms should carefully evaluate the effectiveness of the way in which quality control policies and procedures are communicated to all professional personnel and should determine that appropriate action is taken when inspection or other procedures reveal design or compliance deficiencies.

### Prior to the Review

.04 Identify the individual—usually a partner—who will be responsible for acting as a liaison with the review team.

.05 Review and sign the engagement letter for the review.

.06 Agree with the team captain on the date the review will commence, which must not be later than the date established by the administering entity, the 12-month period to be covered, and the anticipated exit conference date.

.07 Submit the following to the team captain as soon as possible:

- a. A completed quality control policies and procedures questionnaire. (There is one form of questionnaire for sole practitioners without professional staff—defined as CPAs and those expected to seek that status—and one for all other firms.)
- b. Relevant manuals, checklists, etc., if practicable.
- c. A list of accounting and auditing engagements prepared in the form shown in the Appendix to these instructions.

- d. A list of the firm's professional personnel, showing name, position, and years of experience (i) with the firm and (ii) in total.
- e. Other information requested by the team captain.

.08 Based on that information, the team captain will make a preliminary advance selection of engagements for review. Complete profile sheets on those engagements and assemble all working papers, including the permanent files and reports, before the review begins.

.09 Review the applicable guidelines for review of quality control policies and procedures that will be followed by the team captain and make sure documentation that the team captain will ask for will be readily available. Examples of such documentation are noted in the following list, which is not all-inclusive:

- a. Independence confirmations, documentation of independence of correspondents, and documentation supporting the resolution of independence questions.
- b. Personnel files.
- c. CPE records.
- d. Documentation regarding consultations with outside parties.

## During the Review

.10 Make sure firm personnel will be available for discussion with the reviewer(s) as necessary. The reviewers will endeavor to have these discussions and interviews without disrupting the firm's operations.

.11 The team captain will ask your firm to respond to "Matter for Further Consideration" forms. The firm should provide a thorough written response to those forms to avoid any misunderstanding about its quality control policies and procedures or the circumstances of the individual engagement.

.12 Arrange for appropriate partners and staff to attend the exit conference. If the firm disagrees with any of the reviewer's findings, those differences should be discussed as they arise. Any differences of opinion that have not been previously discussed should be covered during the exit conference.

## After the Review

.13 Obtain the report and letter of comments, if any, from the team captain. These documents should be delivered to the firm within 30 days of the date of the exit conference.

.14 Prepare a letter of response to the report and letter of comments and submit all three documents to the administering entity within 30 days of the date the report and letter of comments are received from the team captain. As indicated in the *Standards*, the letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review.

.15 The administering entity will not make the report on the review available to the public. The firm itself may do so, if it wishes. However, the firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that it has been accepted by the administering entity.

## Appendix A

## AN ILLUSTRATION OF A LIST OF ACCOUNTING AND AUDITING CLIENTS

<u>Client Code</u>	<u>Period Covered</u>	<u>Highest Level of Service Provided *</u>	<u>Initial Eng.</u>	<u>Industry **</u>	<u>Name of Partner</u>	<u>Approx. Total Hours</u>
10001	9/30/88	A3	N	125	White	500
10002	10/31/88	A3	Y	165	Smith	350
10003	6/30/88	A2	N	320	Jones	275
10004	12/31/88	A5	N	260	Smith	150
(Bank Director's Exam)						
20001	12/31/88	R	Y	165	Smith	100
20002	3/31/89	R	N	245	White	125
20003	4/30/89	R	N	270	Jones	45
30001	12/31/88	C	N	165	Smith	50
30002	3/31/89	CO	N	270	Jones	40
30003	6/30/88	CO	N	270	Jones	60
30004	9/30/88	CP	Y	270	Jones	40
30005	12/31/88	C	N	220	White	80
Total						<u>1815</u>

\* Denote the highest level of service by using the codes set forth on page 4104.

\*\* Denote the type of industry by using the codes set forth on page 4105.

## Codes for Level of Service

- A1 Audit of SEC Registrant
- A2 Audit Performed Under *Government Auditing Standards* Issued by the U.S. General Accounting Office
- A3 Other Regular Audits of Historical Financial Information
- A4 Examination of Prospective Financial Information
- A5 Other Special Audits—Identify
  
- R Review of Historical Financial Statements
  
- C Compilation of Historical Financial Statements With Disclosures
- CO Compilation of Historical Financial Statements Omitting Substantially All Disclosures
- CP Compilation of Prospective Financial Information

## Industry Codes

105 Advertising	235 Leasing Companies
110 Agricultural, Livestock, Forestry & Fishing	240 Life Insurance Companies
115 Airlines	245 Manufacturing
120 Auto Dealerships	250 Mortgage Banking
125 Banking	255 Motor Carriers
130 Broadcasting and Entertainment	260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)
135 Brokers and Dealers in Securities	265 Pension Plans (including ERISA audits)
140 Brokers and Dealers in Commodities	270 Professional Services (Doctors, Lawyers, Architects, etc.)
145 Casinos	275 Publishing
150 Colleges and Universities	280 Real Estate Brokerage
155 Common Interest Realty Associations	285 Real Estate Development
160 Computer Software Development and Sales	290 Real Estate Management
165 Construction Contractors	295 Real Estate Investment Trusts
170 Continuing Care Retirement Communities	300 Reinsurance Companies
175 Credit Unions	305 Retail Trade
180 Extractive Industries—Oil and Gas	310 Savings and Loan Associations
185 Extractive Industries—Mining	315 Small Loan Companies
190 Finance Companies	320 School Districts
195 Franchisors	325 State and Local Government
200 Fire and Casualty Insurance Companies	330 Telephone Companies
205 Government Contractors	335 Utilities
210 Health Maintenance Organizations	340 Wholesale Distributors
215 Hospitals and Nursing Homes	999 Other (Describe)
220 Hotels and Restaurants	
222 HUD	
225 Insurance Agents and Brokers	
230 Investment Companies and Mutual Funds	

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[The next page is 4201.]



## **QRP Section 4200**

### ***Quality Control Policies and Procedures Questionnaire for Sole Practitioners With No Professional Staff***

.01 This section of the manual contains a questionnaire that a reviewed firm must complete prior to the commencement of the review. This questionnaire has been developed for sole practitioners without professional staff. Completion of the questionnaire assists a sole practitioner in accumulating and organizing the information regarding its quality control system.

.02 Sole practitioners should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, sole practitioners should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.

## AICPA Quality Review Program

QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE  
FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL STAFF

This questionnaire provides the reviewer with basic information. It is not necessarily a checklist of all the policies and procedures that might be applicable to a practice. Sole practitioners who are about to be reviewed should respond directly with "yes," "no," or "N/A" answers and briefly describe, where requested, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, make reference to any documents that describe those policies and procedures in more detail. Examples of such documents might be audit and accounting manuals and forms and checklists used in the practice.

Response, Including Reference to Firm Documents

**A. Independence**

1. Do you adhere to the independence rules, regulations, interpretations, and rulings of the—
  - a. AICPA?
  - b. State CPA society?
  - c. State board of accountancy?
  - d. State accountancy laws?
  - e. SEC and other regulatory agencies?
2. Have you, during the year under review, identified any independence problems with respect to audit or accounting clients?
3. Briefly describe how you do or would resolve independence questions by answering the following—
  - a. What sources do you or would you consult?
  - b. Have you found it necessary to consult with outside parties on independence matters within the last year?
  - c. In what circumstances do you or would you document the resolution of an independence question?
4. Do you have any engagements where you act as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?

5. If the answer to (4) above is "yes"—
  - a. Do you confirm the independence of such other firm(s)?
  - b. Do you do so in writing?
  - c. Do you do so annually?
6. Have you had during the year under review any accounts receivable from clients that may have taken on some of the characteristics of loans and, therefore, may impair your independence?

**B. Consultation**

1. During the year under review, have you sought advice from outside parties to resolve questions involving professional standards or specialized industry practices?
2. How do you determine when to consult with outside parties and with whom to consult?
3. Describe the extent to which you document consultations with outside parties by answering the following—
  - a. Do you document all such consultations?
  - b. If the answer to (a) is "no," describe the circumstances in which you would document a consultation.
  - c. Does your documentation always, usually, or never include the following information:
    - Description of the issue?
    - The client's position, if any?
    - The possible alternatives?
    - The sources consulted (both written materials and people)?
    - The position indicated by those sources?
    - Your conclusion?
    - Your underlying rationale?

4. Does your library include current editions of—
  - a. AICPA *Professional Standards*?
  - b. AICPA industry audit guides relevant to your practice?
  - c. FASB pronouncements?
  - d. GASB pronouncements, *Government Auditing Standards* (the "yellow book"), and other government audit guides relevant to your practice?

### C. Supervision

1. Do you follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (for example, in an audit and accounting manual)?
2. If the answer to (1) is "no," briefly describe the procedures you perform in planning audit and accounting engagements in practice, including the information you obtain and consider and when you do your planning. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.
3. Is a written audit program used on all audit engagements?
4. Do you use written guidance materials regarding the following matters? If so, indicate whether you developed it or obtained it from an outside source, and name the source.
  - a. Evaluation and documentation of internal controls, including computer controls.
  - b. Consideration of internal controls in planning the audit.
  - c. Audit risk and materiality considerations.
  - d. Audit sampling techniques.
  - e. Degree of reliance to be placed on analytical procedures.
  - f. Form and content of working papers.
  - g. Other audit and accounting matters, in the form of an audit and accounting manual.

5. Do you use any standardized forms, checklists, or questionnaires? If so, attach a list and describe the types of engagements on which you use them. (Note that the reviewer will want to inspect these forms during the review.)
6. Do you use correspondents for audit or accounting engagements? If "yes," describe how (in writing or orally and when this is done) instructions are given to such correspondents and the extent to which you review their work.
7. Have you purchased audit or accounting clients from another CPA during the year under review?

**D. Professional Development**

1. Are you in compliance with state and AICPA continuing professional education requirements? If not, indicate how and when you plan to correct the situation.
2. Briefly describe how you plan the allocation of your CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.
3. Do you maintain CPE records and course materials?

**E. Acceptance and Continuance of Clients**

1. Briefly describe the procedures you follow, including any documents you generally obtain and review and any inquiries you generally make of third parties, before you accept a client for whom you will perform audit or accounting services, in order to provide yourself with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate your ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.
2. Did you terminate any audit or accounting relationships during the year under review?

**F. Inspection**

1. Have you performed a timely, formal, documented inspection of your quality control policies and procedures for each year since your last peer or quality review (or for the year preceding the review year if you have not previously had a review) and, if so, have you retained the summary or report for the team captain's review?
2. Have you taken appropriate corrective action in response to the findings on your most recent quality review or peer review?

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[The next page is 4301.]

## **QRP Section 4300**

### ***Quality Control Policies and Procedures Questionnaire for Firms With Two or More Professionals***

.01 This section of the manual contains a questionnaire that a reviewed firm must complete prior to the commencement of the review. The questionnaire has been developed for firms with two or more professionals. Completion of the questionnaire assists a firm in accumulating and organizing the information regarding its quality control system.

.02 The reviewed firm should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, firms should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.

**AICPA Quality Review Program**  
**QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE**  
**FOR FIRMS WITH TWO OR MORE PROFESSIONALS**

This questionnaire provides the reviewer with basic information. It is not necessarily a checklist of all the policies and procedures that might be applicable to a firm's practice. Firms about to be reviewed should respond directly with "yes," "no," or "N/A" answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, firms should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists.

Response, Including Reference to Firm Documents

**A. Independence**

1. Does the firm, including all its professional personnel, adhere to the independence rules, regulations, interpretations, and rulings of the—
  - a. AICPA?
  - b. State CPA society?
  - c. State board of accountancy?
  - d. State accountancy laws?
  - e. SEC and other regulatory agencies?
  
2. Describe how the firm informs its professional personnel of the applicable independence requirements (for example, through its personnel manual, audit and accounting manual, training meetings, memoranda).
  
3. How does the firm inform its professional personnel of the new clients to which independence requirements apply? For example, does the firm—
  - a. Circulate new client lists to all personnel?
  - b. Post new clients on a staff bulletin board?
  - c. Report new clients at staff meetings?
  - d. Use other (describe) means?
  
4. Does the firm obtain at least annually written representations from all professional personnel concerning their compliance with applicable independence requirements? If not, how does the firm monitor compliance with its independence policies? If yes, do these representations affirm that:

Response, Including Reference to Firm Documents

- a. The individual is familiar with the firm's independence policies and procedures?
  - b. Prohibited investments are not held and were not held during the period?
  - c. Prohibited relationships do not exist and that transactions prohibited by firm policy have not occurred?
5. Who is responsible for resolving independence questions:
- a. The engagement partner?
  - b. The managing partner?
  - c. Someone else (identify individual)?
6. In connection with the resolution of independence questions—
- a. In what circumstances must the question and its resolution be documented?
  - b. Where is the documentation maintained (for example, the working paper files or other specific firm or client files)?
  - c. What sources are or would be consulted?
  - d. Has the firm found it necessary within the last year to consult with individuals outside the firm on independence matters?
7. Does the firm have any engagements where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?
8. If the answer to (7) above is "yes"—
- a. Does the firm confirm the independence of such other firm(s)?
  - b. Does it do so in writing?
  - c. Does it do so annually?
9. Does the firm review accounts receivable from clients to ascertain whether any outstanding amounts have taken on some of the characteristics of loans and, therefore, may impair the firm's independence?
- a. Who does this?



- b. How often is it done?
- c. Have there been any such situations during the year under review?

**B. Assigning Personnel to Engagements**

1. Describe the method the firm uses to assign professional personnel to engagements. In that description, include—
  - a. The basis on which assignments are made. For example, some firms make assignments on an engagement by engagement basis; others assign personnel to specific clients and hold them accountable for all services to those clients.
  - b. How staff are advised of their assignments. For example, some firms do this orally; others issue memoranda or copies of scheduling forms; others post assignments to a staff bulletin board.
  - c. Who is responsible for making staff assignments on a day-to-day basis.
  - d. How that person is informed of estimated time requirements and of any special skills or experience that a given assignment might demand.
  - e. How far in advance assignments are typically made.

**C. Consultation**

1. During the year under review, has the firm sought advice from outside parties to resolve questions involving professional standards or specialized industry practices?
2. How does the firm determine when to consult with outside parties and with whom to consult?
3. Describe the extent to which the firm expects consultations with outside parties to be documented. Where is such documentation maintained?
4. Does the firm's library include current editions of—
  - a. *AICPA Professional Standards*?
  - b. AICPA industry audit guides relevant to the firm's practice?
  - c. FASB pronouncements?
  - d. GASB pronouncements, *Government Auditing Standards* (the "yellow book") and other government audit guides relevant to the firm's practice?

**D. Supervision**

1. Does the firm follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (e.g., in an audit and accounting manual)?
2. If the answer to (1) is "no," briefly describe the procedures the firm performs in planning audit and accounting engagements in practice, including the information obtained and considered and the nature, timing and extent of partner involvement in the planning process. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.
3. Is a written audit program used on all audit engagements? If yes, who is required to review and approve the audit program, and how is this approval documented?
4. Indicate whether the firm has written guidance materials regarding the following matters. If so, indicate where the material is found and whether it was developed internally or was obtained from an outside source, and name the source.
  - a. Evaluation and documentation of internal controls, including computer controls?
  - b. Consideration of internal controls in planning the audit?
  - c. Audit risk and materiality considerations?
  - d. Audit sampling techniques?
  - e. Degree of reliance to be placed on analytical procedures?
  - f. Form and content of working papers?
  - g. Other audit and accounting matters, in the form of an audit and accounting manual?
5. Does the firm use any standardized forms, checklists, or questionnaires? If so, attach a list and indicate whether the use of each is required or discretionary. (Note that the reviewer will want to inspect these forms during the review.)
6. Has the firm established procedures to be followed when differences of opinion exist among firm personnel on an audit (see AICPA *Professional Standards*, AU section 311.14)?

- a. Are those procedures documented? Where?
  - b. Do those procedures allow an assistant to document his or her disagreement with the conclusion reached?
7. Does the firm use other offices or correspondents for audit or accounting engagements? If "yes," describe the form in which instructions are given to other offices or correspondents and the extent to which their work is reviewed, or indicate where the firm's procedures for the supervision and control of that work are found.
8. Does the firm have documented procedures for review by supervisors and partners of the reports, financial statements, and working papers for —
- a. Audits?
  - b. Reviews?
  - c. Compilations?
9. If the answer to (8) is "yes," indicate where those procedures are found. If the answer is "no," briefly describe the procedures that are followed, including how the review process is documented.
10. Does the firm require that an individual having no other significant responsibility for the engagement perform a preissuance review of some or all engagements? If "yes," indicate who performs such preissuance reviews and briefly describe the extent of the review and how the review is documented, indicating the types of engagements to which the procedures are applicable. Alternatively, indicate where these procedures are found.
11. Has the firm merged with any other firm since the date of its last quality review or in the last three years? If "yes"—
- a. How did the firm evaluate the quality of a potential merger candidate?
  - b. Did the firm acquire any professional personnel in the merger?
  - c. Did the firm acquire and retain any new office or offices in the merger (indicate the locations of any such offices)?
  - d. Have the personnel of the merged firm adopted the firm's quality control policies and procedures?

**E. Hiring**

1. Briefly describe how the firm identifies its professional personnel needs, how it goes about recruiting such personnel, and who makes the decision to hire an applicant.
2. Briefly describe the personal, educational, and experience attributes sought in entry-level personnel and in experienced personnel and indicate whether they are objectives or requirements.
3. Identify the types of background information the firm requires for new hires, such as resumes, transcripts, and personal or employment references.
4. Briefly describe how new professional personnel are informed about the policies and procedures that are applicable to them. Also, attach a list of the manuals, professional publications, and other documents relevant to their professional assignments that are provided to them individually.

**F. Professional Development**

1. Are all professional personnel in compliance with state and AICPA Continuing Professional Education requirements? If not, attach a list of those personnel who are not in compliance and indicate the firm's plan for correcting the situation.
2. Briefly describe how the firm plans the allocation of CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.
3. Provide an approximation of the nature of the CPE taken by professional personnel assigned to audit and accounting engagements:
  - a. Self-study courses ..... %
  - b. In-house training programs—
    - (i) Developed by the firm ..... %
    - (ii) Obtained from outside vendors ..... %
  - c. State society or AICPA programs ..... %
  - d. Other programs ..... %
4. Who maintains CPE records and course materials?

5. How are professional personnel made aware of changes in accounting and auditing standards and in the firm's technical policies and procedures (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement)?

#### G. Advancement

1. What levels of responsibility exist within the firm (e.g., partner, manager, senior)?
2. Are personnel at all levels aware of the responsibilities of each of these positions? How is this accomplished? Are those responsibilities documented in, for example, a personnel manual?
3. Does the firm periodically evaluate the performance of professional personnel and advise them of their progress in the firm?
  - a. When are these evaluations performed?
  - b. Are they documented?
  - c. Are standard evaluation forms used?
4. Are partners periodically evaluated, and by what means (e.g., peer evaluation, self-appraisal, counseling)?
5. Briefly describe how advancement decisions are made (a) within the professional staff and (b) to the partnership.

#### H. Acceptance and Continuance of Clients

1. Briefly describe the procedures followed by the firm, including any documents generally obtained and reviewed and any inquiries generally made of third parties, before accepting a client for whom the firm will provide audit or accounting services in order to provide the firm with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate the firm's ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.
2. Indicate when or under what circumstances current audit and accounting clients are evaluated to determine whether the relationship should be continued, and briefly describe the procedures that are followed.
3. Were any audit or accounting client relationships terminated by the firm during the year under review?

Response, Including Reference to Firm Documents

**I. Inspection**

1. Has the firm performed a timely, formal, documented inspection of its quality control policies and procedures for each year since its last peer or quality review (or for the year preceding the review year if the firm has not previously had a review)? If "yes," briefly describe—
  - a. The scope of the program, including who carries it out.
  - b. The materials used, such as questionnaires, programs, and checklists.
  - c. The documentation of the work performed and conclusions reached and the period of time such documentation and conclusions are retained.
2. Has the firm taken appropriate corrective action in response to the findings on its most recent quality review or peer review?

[The next page is 4401.]

## **QRP Section 4400**

### ***Guidelines for Review of Quality Control Policies and Procedures for Sole Practitioners With No Professional Staff***

.01 To assist the reviewer in performing his or her work, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm's quality control policies and procedures and for testing compliance with them. The suggested procedures for review of a sole practitioner with no professional staff are set forth in QRP section 4400.

.02 The suggested review procedures are based on typical policies and procedures that a firm may have established. Therefore, they should be modified by the reviewer as circumstances may require.

.03 The extent of the review team's testing should be documented on the appropriate pages of the Guidelines (which serve as a program) and supplemented as necessary with additional pages.

## AICPA Quality Review Program

GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES  
FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL STAFF

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p><b>A. Independence</b></p> <ol style="list-style-type: none"> <li>1. Interview the CPA and—               <ol style="list-style-type: none"> <li>a. Review the CPA's responses to the independence section (part A) of the Quality Control Policies and Procedures Questionnaire (the "questionnaire") and clarify those responses, if necessary.</li> <li>b. Inquire about financial or other relationships that may be prohibited relationships, such as:                   <ol style="list-style-type: none"> <li>(i) Business relationships with clients or with nonclients that have investor or investee relationships with clients.</li> <li>(ii) Loans from financial institutions.</li> <li>(iii) Family members in director or manager positions with client entities, including not-for-profit organizations.</li> <li>(iv) Past-due fees for professional services.</li> <li>(v) Accounting or advisory services that have evolved into situations where the CPA has assumed some of the responsibilities of management.</li> </ol> </li> <li>c. Inquire about any situations where the CPA has elected <i>not</i> to be independent and whether the CPA withdrew from the audit or accounting engagement or appropriately modified his or her report.</li> <li>d. Inquire into the procedures the CPA follows to provide reasonable assurance that new or revised rules, interpretations, or rulings on independence matters are considered in the practice.</li> </ol> </li> <li>2. Identify by review of files or by interviewing the CPA all situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate.</li> <li>3. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the CPA has complied with his or her policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the CPA is the principal auditor or accountant.</li> </ol>		



Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p><b>B. Consultation</b></p> <ol style="list-style-type: none"> <li>1. Interview the CPA and—               <ol style="list-style-type: none"> <li>a. Review the CPA's responses to the consultation section (part B) of the questionnaire and clarify those responses, if necessary.</li> <li>b. Inquire into and evaluate the CPA's views concerning when outside consultation should take place and the sources that should be used.</li> </ol> </li> <li>2. Identify by review of appropriate documentation (see questionnaire, B.1, B.2, and B.3) or by interviewing the CPA situations in which consultation has taken place and evaluate whether the advice appears appropriate and whether the CPA responded appropriately to that advice.</li> <li>3. Inspect the CPA's library for his or her audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the CPA's specialties and that loose-leaf services are filed on a timely basis.</li> </ol> <p><b>C. Supervision</b></p> <ol style="list-style-type: none"> <li>1. Interview the CPA and review his or her responses to the supervision section (part C) of the questionnaire and clarify those responses, if necessary.</li> <li>2. Evaluate the CPA's procedures for planning audit and accounting engagements.</li> <li>3. If the CPA uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer also may wish to obtain the most recent report of the design of those materials.)</li> <li>4. Review and evaluate the following quality control materials developed by the CPA and those materials developed by other parties on which there is no separate report on the review of the suitability of their design:               <ol style="list-style-type: none"> <li>a. Evaluation and documentation of internal controls, including computer controls.</li> <li>b. Consideration of internal controls in planning the audit.</li> </ol> </li> </ol>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ul style="list-style-type: none"> <li>c. Audit risk and materiality considerations.</li> <li>d. Audit sampling techniques.</li> <li>e. Degree of reliance to be placed on analytical procedures.</li> <li>f. Form and content of working papers.</li> <li>g. Other audit and accounting matters, in the form of an audit and accounting manual.</li> </ul> <p>Generally, a "high-spot" review will be made of these materials because the team captain will usually emphasize engagement review, compared to review of policies and procedures, in the conduct of the review of a sole practitioner.</p> <ul style="list-style-type: none"> <li>5. Review and evaluate the appropriateness of any standardized forms, checklists—especially, financial statement disclosure checklists—or questionnaires (see questionnaire, C.5) and, if the use of any is discretionary, consider whether that policy is appropriate for the CPA.</li> <li>6. Evaluate the CPA's procedures for the supervision and control of work, if any, performed by correspondents.</li> <li>7. Inquire about any unusual accounting or auditing problems related to clients purchased during the year under review and evaluate the appropriateness of the CPA's assessment and treatment of such matters.</li> </ul>		
<p><b>D. Professional Development</b></p> <ul style="list-style-type: none"> <li>1. Review the CPA's continuing professional education records and determine that those records are adequate to demonstrate compliance with the requirements of the AICPA, the state board of accountancy, and the state CPA society, if applicable.</li> <li>2. Discuss with the CPA the factors considered in planning his or her CPE activities and evaluate the appropriateness of the plan for the year under review and compliance with the plan. In that connection, consider— <ul style="list-style-type: none"> <li>a. The allocation of CPE hours among accounting and auditing, tax, and other topics.</li> <li>b. The nature of the CPE obtained (self-study, attendance at conferences, participation in group-study programs).</li> </ul> </li> </ul>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p><b>E. Other Matters</b></p> <ol style="list-style-type: none"> <li>1. Read the CPA's responses to the sections of the questionnaire on acceptance and continuance of clients (part E) and inspection (part F) to obtain a general understanding of the CPA's quality control policies and procedures with respect to those two elements of quality control. However, no specific compliance tests of these two broad functions are required, provided that the team captain concludes that the review of selected engagements and interviews with the CPA will provide an adequate means of identifying failures, if any, to achieve the objectives inherent in those two elements of quality control.</li> <li>2. Discuss with the CPA plans, if any, the CPA may have for recruiting professional personnel and review with the CPA the quality control considerations related to the hiring of additional personnel as well as the implications of that for the CPA's quality control system.</li> </ol>		

[The next page is 4501.]

## **QRP Section 4500**

### ***Guidelines for Review of Quality Control Policies and Procedures for Firms With Two or More Professionals***

.01 To assist the review team in performing its work, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm's quality control policies and procedures and for testing the firm's compliance with them. The suggested procedures for reviews of firms with two or more professional staff are set forth in QRP section 4500.

.02 The suggested review procedures are based on typical policies and procedures that a firm may have established. Therefore, they should be modified by the reviewer as circumstances may require.

.03 The extent of the review team's testing should be documented on the appropriate pages of the Guidelines (which serve as a program) and supplemented as necessary with additional pages.

.04 Some of the suggested quality review procedures include inquiring about particular quality control functions. The objectives of these inquiries include:

- a. Corroborating the information provided to the reviewer in the questionnaire completed by the reviewed firm; and
- b. Determining whether the firm's policies and procedures have been effectively communicated to the individual(s) responsible for the particular quality control function.

**AICPA Quality Review Program**  
**GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES**  
**FOR FIRMS WITH TWO OR MORE PROFESSIONALS**

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p><b>A. Independence</b></p> <ol style="list-style-type: none"> <li>1. Compare the firm's independence policies and procedures with professional and regulatory requirements.</li> <li>2. Interview the appropriate individual <sup>1</sup> and— <ol style="list-style-type: none"> <li>a. Review the firm's responses to the independence section (part A) of the Quality Control Policies and Procedures Questionnaire (the "questionnaire") and clarify those responses, if necessary.</li> <li>b. Inquire about financial or other relationships that may be prohibited relationships, such as <ol style="list-style-type: none"> <li>(i) Business relationships with clients or with nonclients that have investor or investee relationships with clients.</li> <li>(ii) Loans from financial institutions.</li> <li>(iii) Family members in director or manager positions with client entities, including not-for-profit organizations.</li> <li>(iv) Past-due fees for professional services.</li> <li>(v) Accounting or advisory services that have evolved into situations where the firm has assumed some of the responsibilities of management.</li> </ol> </li> <li>c. Inquire about how frequently the staff is informed of changes in the entities to which the firm's independence rules apply.</li> <li>d. Inquire about any situations where the firm is not independent and whether the firm withdrew from the audit or accounting engagement or appropriately modified its report.</li> </ol> </li> </ol>		

<sup>1</sup> The "appropriate individual" would usually be an owner and, depending on the circumstances, may be the managing partner, the individual responsible for the accounting and auditing function, the individual responsible for the quality control function, or other partners or shareholders responsible for specific functions.

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>e. Inquire into the procedures the firm follows to provide reasonable assurance that new or revised rules, interpretations, or rulings on independence matters are considered in the practice.</p> <p>3. Identify by review of files or by interviewing the appropriate individual a selection of situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate.</p> <p>4. Review the written independence confirmations obtained by the firm for a sample (indicate number ____ ) of professional personnel, if required by firm policy.</p> <p>5. Determine by review of appropriate documentation (see questionnaire, A.3) and by interviews with selected staff (see separate interview guidelines) that the firm has advised all professional personnel on a timely basis about entities to which the independence rules apply and that professional personnel are familiar with the firm's independence policies and procedures.</p> <p>6. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the firm has complied with its policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the firm is the principal auditor.</p> <p><b>B. Assigning Personnel to Engagements</b></p> <p><i>For firms with up to ten professionals (defined as CPAs and those expected to seek that status) during the majority of the review year, the team captain would ordinarily decide not to complete this section of the questionnaire. This would be appropriate, according to the Standards, when the team captain concludes that the review of selected engagements and interviews with firm personnel will provide an adequate means of identifying failures, if any, to achieve the objectives of this element of quality control. However, when significant deficiencies are noted in the engagements reviewed, the team captain may need to perform some or all of the procedures described in this section in order to identify corrective actions the firm should consider taking. Moreover, in all reviews, as noted in the Standards, the review team should obtain a general understanding of the reviewed firm's quality control policies and procedures with respect to this element of quality control; ordinarily, that understanding can be obtained from reading the reviewed firm's responses to the quality control policies and procedures questionnaire.</i></p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> <li>1. Interview the appropriate individual and—               <ol style="list-style-type: none"> <li>a. Review the firm's responses to the assigning personnel section (part B) of the questionnaire and clarify those responses, if necessary.</li> <li>b. Inquire about the criteria and other factors considered in making personnel assignments and about the relative priorities assigned to:                   <ol style="list-style-type: none"> <li>(i) Engagement size and complexity.</li> <li>(ii) Personnel availability.</li> <li>(iii) Special expertise required.</li> <li>(iv) Timing of work to be performed.</li> <li>(v) Continuity and periodic rotation of personnel.</li> <li>(vi) Opportunities for on-the-job training.</li> </ol> </li> </ol> </li> <li>2. Determine by review of appropriate documentation (see questionnaire, B.1.b) and by interviewing the appropriate individual how far in advance staffing requirements for engagements are determined and how far in advance staff are notified of their particular work assignments.</li> <li>3. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate. (See separate interview guidelines.)</li> </ol>		
<b>C. Consultation</b>		
<ol style="list-style-type: none"> <li>1. Interview the appropriate individual and—               <ol style="list-style-type: none"> <li>a. Review the firm's responses to the consultation section (part C) of the questionnaire and clarify those responses, if necessary.</li> <li>b. Inquire into and evaluate the firm's policies and procedures concerning consultation outside the firm, especially those dealing with when consultation should take place and the sources that should be used.</li> </ol> </li> </ol>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> <li>2. Identify by review of documentation (see questionnaire, C.2, C.3, and C.4) or by interviewing the appropriate individual situations in which consultation with outside parties has taken place. Evaluate the advice received and whether the firm acted appropriately on that advice.</li> <li>3. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and that loose-leaf services are filed on a timely basis.</li> <li>4. Interview selected staff to confirm their awareness of the firm's consultation policies and procedures and discuss how they follow those policies and procedures in practice. (See separate interview guidelines.)</li> </ol>		
<p><b>D. Supervision</b></p>		
<ol style="list-style-type: none"> <li>1. Interview the appropriate individual and review the firm's responses to the supervision section (part D) of the questionnaire and clarify those responses, if necessary.</li> <li>2. Evaluate the firm's procedures for planning audit and accounting engagements.</li> <li>3. If the firm uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer may also wish to obtain the most recent report on the review of the design of those materials.)</li> <li>4. Review and evaluate the following quality control materials developed by the firm and those materials developed by other parties on which there is no separate report on the review of the suitability of their design:               <ol style="list-style-type: none"> <li>a. Evaluation and documentation of internal controls, including computer controls.</li> <li>b. Consideration of internal controls in planning the audit.</li> <li>c. Audit risk and materiality considerations.</li> </ol> </li> </ol>		



Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ul style="list-style-type: none"> <li>d. Audit sampling techniques.</li> <li>e. Degree of reliance to be placed on analytical procedures.</li> <li>f. Form and content of working papers.</li> <li>g. Other audit and accounting matters, in the form of an audit and accounting manual.</li> </ul> <p>The timing and extent of the review of these materials will depend on the size of the firm and the extent to which the team captain has decided to emphasize engagement review, compared to review of policies and procedures, in the conduct of the review.</p>		
<ul style="list-style-type: none"> <li>5. Review and evaluate the appropriateness of any standardized forms, checklists—especially, financial statement disclosure checklists—or questionnaires (see questionnaire, D.5) and, if the use of any is discretionary, consider whether that policy is appropriate for the firm.</li> </ul>		
<ul style="list-style-type: none"> <li>6. Evaluate the firm's procedures for review of the engagement reports, financial statements, and working papers.</li> </ul>		
<ul style="list-style-type: none"> <li>7. Evaluate the firm's procedures for the supervision and control of work, if any, performed by other offices or correspondents.</li> </ul>		
<ul style="list-style-type: none"> <li>8. Evaluate the firm's procedures for resolving differences of opinion among members of an engagement team.</li> </ul>		
<ul style="list-style-type: none"> <li>9. Review and evaluate the firm's policies and procedures for:</li> </ul>		
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>a. Evaluating the quality of a potential merger candidate.</li> </ul> </li> </ul>		
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>b. Training and integrating the professional personnel of the merged-in practice in the reviewed firm's quality control policies and procedures.</li> </ul> </li> </ul>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p>10. Inquire of the appropriate individual about any unusual accounting or auditing problems related to clients obtained in a merger during the year under review and evaluate the appropriateness of the firm's assessment and treatment of such matters.</p> <p>11. Interview selected staff to confirm their awareness of the firm's supervision policies and procedures. (See separate interview guidelines.)</p> <p><b>E. Hiring</b></p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <p>1. Interview the appropriate individual and—</p> <p>a. Review the firm's responses to the hiring section (part E) of the questionnaire and clarify those responses, if necessary.</p> <p>b. Inquire into how the firm plans its personnel needs and whether the hiring program satisfies those needs.</p> <p>c. Ask how potential hires are identified and informed about the firm.</p> <p>2. Select a sample (indicate number ____ ) of new hires, including those joining the firm through mergers or at supervisory levels, obtain each individual's personnel file, and—</p> <p>a. Determine whether the background information and other documentation required by firm policy was obtained.</p> <p>b. Review the documentation and evaluate whether the individual possesses the desired attributes, achievements, and experience. If not, ascertain from other documentation or from inquiry why an exception was made.</p> <p>c. Select one or more of these new hires for an interview. (See separate interview guidelines.)</p> <p><b>F. Professional Development</b></p> <p>1. Interview the appropriate individual and—</p>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ol style="list-style-type: none"> <li>a. Review the firm's responses to the professional development section (part F) of the questionnaire and clarify those responses, if necessary.</li> <li>b. Evaluate the adequacy of the actions being taken to correct situations involving professional personnel, if any, who are not in compliance with CPE requirements (see questionnaire, F.1).</li> <li>c. Discuss the factors considered in planning the CPE program and evaluate the appropriateness of the plan for the year under review, including the allocation of CPE hours by subject area and the nature of the CPE taken (see questionnaire, F.2 and F.3).</li> </ol> <ol style="list-style-type: none"> <li>2. Review the firm's CPE records on a test basis and consider whether they appear adequate to demonstrate compliance with AICPA, state board, and state society requirements and whether they indicate that the firm's plans for the CPE program are being carried out.</li> <li>3. If the firm presents a significant amount of in-house training, select a sample (indicate number ____ ) of such programs for review. Examine appropriate documentation to determine whether— <ol style="list-style-type: none"> <li>a. The developer is qualified.</li> <li>b. The course is technically accurate, current, and contributes to the professional competence of the attendees.</li> <li>c. The instructor is qualified.</li> <li>d. The participants and instructor evaluate the course, and appropriate action is taken when the evaluations are not favorable.</li> </ol> </li> <li>4. Interview selected staff to obtain their impressions of the firm's CPE function and their on-the-job training, and to determine whether new professional standards and guidance materials are made available to them on a timely basis. (See separate interview guidelines.)</li> </ol>		
<b>G. Advancement</b>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <ol style="list-style-type: none"> <li>1. Interview the appropriate individual and— <ol style="list-style-type: none"> <li>a. Review the firm's responses to the advancement section (part G) of the questionnaire and clarify those responses, if necessary.</li> <li>b. Inquire into the firm's underlying philosophy with respect to advancement, termination, and partner responsibilities.</li> <li>c. Inquire as to how the firm monitors the firm's compliance with its policies and procedures?</li> </ol> </li> <li>2. Review job descriptions and advancement criteria and evaluate whether they are reasonable for the firm.</li> <li>3. For a sample of professional personnel (indicate number _____), review personnel files, personnel evaluations, or other documentation to determine whether staff members are reviewed, evaluated, and promoted in accordance with firm policy.</li> <li>4. Evaluate the effectiveness of the method used to evaluate partners and whether they fulfill the responsibilities assigned to them. In that connection, consider interviewing selected partners to assist in evaluating the effectiveness of the method used.</li> <li>5. Interview selected staff to determine their awareness of the firm's advancement policies and procedures and whether they are followed. (See separate interview guidelines.)</li> </ol>		
<p><b>H. Acceptance and Continuance of Clients</b></p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <ol style="list-style-type: none"> <li>1. Interview the appropriate individual and— <ol style="list-style-type: none"> <li>a. Review the firm's responses to the acceptance and continuance section (part H) of the questionnaire and clarify those responses, if necessary.</li> </ol> </li> </ol>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ul style="list-style-type: none"> <li>b. Inquire into the circumstances surrounding the termination, if any, of audit or accounting relationships during the year under review.</li> <li>c. Determine the extent to which firm policies and procedures require client acceptance and continuance decisions to be documented, and where such documentation is maintained.</li> </ul> <ol style="list-style-type: none"> <li>2. Evaluate the appropriateness of the firm's policies and procedures for the acceptance and continuance of clients, including procedures to ensure compliance with professional standards on communications between predecessor and successor accountants.</li> <li>3. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its own policies and procedures and with the requirements of professional standards.</li> <li>4. Interview selected staff and determine whether the firm's policies on client continuance decisions have been adequately communicated to the staff. (See separate interview guidelines.)</li> </ol>		
<p><b>I. Inspection</b></p> <p><i>For reviews of firms with up to ten professionals, the team captain would ordinarily decide not to complete this section. See section B for more commentary and guidance.</i></p> <ol style="list-style-type: none"> <li>1. Interview the appropriate individual and— <ul style="list-style-type: none"> <li>a. Review the firm's responses to the inspection section (part I) of the questionnaire and clarify those responses, if necessary.</li> <li>b. Discuss the criteria used in selecting offices and engagements for review and for selecting individuals within or outside the firm to carry out such procedures.</li> <li>c. Discuss how the firm monitors whether the corrective actions planned as a result of an inspection are actually carried out.</li> </ul> </li> <li>2. Review the available documentation supporting annual inspections conducted since the last quality review, if any, and evaluate whether—</li> </ol>		

Suggested Review Procedures	Findings, Including Extent of Testing	Done By (Initials)
<ul style="list-style-type: none"> <li>a. The inspectors had sufficient training and experience.</li> <li>b. The inspection coverage included: <ul style="list-style-type: none"> <li>(i) Reviewing and testing compliance with firm quality control policies and procedures relating to all the elements of quality control.</li> <li>(ii) Reviewing an appropriate number of offices.</li> <li>(iii) Reviewing an appropriate number and type of engagements for compliance with professional standards.</li> </ul> </li> <li>c. The inspection findings are appropriately summarized and documented.</li> <li>d. The materials used in carrying out the inspection, such as questionnaires, programs, and checklists, are adequate.</li> <li>e. Appropriate corrective action was taken on inspection findings, including, if necessary, action pursuant to the requirements of AICPA <i>Professional Standards</i>, AU 390 and AU 561 or supplementing the working papers to document the procedures performed.</li> </ul> <p>3. Consider whether inspection findings for the year under review correlate with the findings on the quality review and explain any significant differences.</p> <p>4. Interview selected staff to determine whether inspection findings have been appropriately communicated and considered. (See separate interview guidelines.)</p>		

[The next page is 4601.]

# **QRP Section 4600**

## ***Staff Interview Questionnaire***

**.01** The review of a CPA firm's quality control policies and procedures requires that professional personnel be interviewed. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated.

**.02** When soliciting information, reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm.

**.03** The questionnaire developed to guide the reviewer in conducting interviews is included in this section of the manual. It should be tailored as the interviewer deems appropriate.

**.04** The individuals interviewed should have varying levels of experience and background. The number of individuals interviewed will be affected by the size and nature of the reviewed firm's practice.

## AICPA Quality Review Program

## STAFF INTERVIEW QUESTIONNAIRE

The review of a CPA firm's quality control policies and procedures requires that professional personnel be interviewed. Interviews with firm personnel are generally contemplated as a corroborative technique rather than as a means for initially gathering information. Reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm when soliciting information. This questionnaire lists suggested interview questions that may be tailored as the interviewer deems appropriate. Interviews can also elicit reactions or perceptions of which the firm should be, but is not, aware. The interviewee should be advised that no record is kept of his or her name.

Office Code No.	Interviewee Code	Level of Interviewee
Suggested Questions		Responses
<b>A. Independence</b> <ol style="list-style-type: none"> <li>How does the firm inform you of its policies and of those entities to which the firm's independence policies apply?</li> <li>If you had a question on an independence matter, what would you do?</li> <li>Are you aware of any engagements in which you believe the firm was not independent? Yes _____ No _____. If yes, which engagements?</li> <li>Has another firm ever performed a segment of an engagement on which you have been involved and for which your firm was the principal auditor? Yes _____ No _____. If yes, has the independence of that firm been confirmed? Yes _____ No _____. If not, why?</li> </ol>		
<b>B. Assigning Personnel to Engagements</b> <ol style="list-style-type: none"> <li>What types of assignments have you had in the past year?</li> <li>Did you believe that the assignments you have received have been appropriate for your level?</li> </ol>		
<b>C. Consultation</b> <ol style="list-style-type: none"> <li>If you do not know the answer to an accounting or auditing question, what would you do?</li> <li>Has the firm identified any specialized situations requiring consultation? Yes _____ No _____. If yes, give a few examples. How have you been apprised of situations requiring consultation with a specialist?</li> </ol>		



## Suggested Questions

## Responses

3. Has the firm identified any individuals within the firm as (industry) specialists? Yes \_\_\_\_ No \_\_\_\_\_. If yes, give a few examples. How have you been apprised of them?

**D. Supervision**

1. Do you believe that the engagements on which you have participated have been properly planned? Yes \_\_\_\_ No \_\_\_\_\_. If no, explain why.
2. In planning an engagement, what forms should be prepared and what procedures should be performed? (Applicable only to staff with planning responsibility.)
3. To what extent have you been supervised on the engagements on which you have participated and do you believe that the degree of supervision was adequate?
4. To what extent have you supervised other people on engagements on which you have participated? Were you adequately trained to carry out that responsibility?
5. How are differences of professional judgment among members of an engagement team resolved?

**E. Hiring**

1. How were you informed about the quality control policies and procedures that are relevant to you?

*Staff Involved in Recruiting Process*

2. Prior to becoming involved in the hiring process, were you informed about the firm's hiring objectives? Yes \_\_\_\_ No \_\_\_\_\_. If yes, how were you apprised of this information?
3. What attributes, achievements and experiences are sought in hirees?

**F. Professional Development**

1. What is your general evaluation of the courses you attended in the last year, and do you believe that the courses you attended contributed to your professional competence?

Suggested Questions	Responses
<p>2. Do you believe that the on-the-job training that you received during the year under review was adequate? Yes ____ No ____ If no, briefly describe why.</p> <p>3. Are new professional standards and guidance materials distributed to you on a timely basis?</p>	
<b>G. Advancement</b>	
<p>1. What are the responsibilities of your position?</p> <p>2. What are the qualifications deemed necessary for promotion to the level immediately above yours?</p> <p>3. To what extent do you receive feedback on your performance? Do you feel that this is satisfactory?</p> <p>4. How often have you been evaluated during the last year and do you believe that these evaluations, if any, were performed on a timely professional basis?</p>	
<b>H. Acceptance and Continuance of Clients</b>	
<p>1. What conditions on an engagement would cause you to bring them to the attention of your supervisor so that a decision could be made whether the firm's relationship with the client should be continued?</p>	

Suggested Questions	Responses
<b>I. Inspection</b>  1. Were any of the engagements on which you worked selected for review during the most recent inspection and the one immediately preceding it? Yes _____ No _____. If yes, were you made aware of the findings concerning your work and were they considered on the subsequent engagement(s)?  2. What were the findings of the most recent inspection and how were these communicated to you?	

Date of Interview \_\_\_\_\_

Interviewer's Signature \_\_\_\_\_

Date Interview Questionnaire Reviewed by Team Captain \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_

\_\_\_\_\_

[The next page is 4701.]

## QRP Section 4700

### *Conclusions of the Review Team on an On-Site Quality Review*

.01 Section 4700 sets forth a series of questions designed to assist reviewers in reaching overall conclusions on the functional areas. The responses also assist the reviewers in determining whether the appropriate procedures have been performed, adequately documented, and properly summarized. The questions incorporate the objectives of quality reviews.

.02 Reviewers should answer the questions asked in this section for each quality control element for which the corresponding section of the Guidelines for Review of Quality Control Policies and Procedures (QRP sections 4400 or 4500) was completed. If the questions concerning a particular element were not answered in the *Guidelines*, reviewers should place an "X" in the box directly below the name of the element.

.03 Section 4700 should be completed after the summaries of "no" answers on engagements and the summary of matter for further consideration forms have been prepared.

.04 See Appendixes B and D of the *Standards for Performing and Reporting on Quality Reviews* (section 3000) of this manual for guidance on when a modified report should be issued and what matters should be included in a letter of comments.

.05 The conclusions noted in this section should be consistent with the matters discussed in the report and, if applicable, the letter of comments.

## AICPA Quality Review Program

## CONCLUSIONS OF THE REVIEW TEAM ON AN ON-SITE QUALITY REVIEW

Reviewers should answer the questions asked on this form concerning each quality control element for which the corresponding section in the Guidelines for Review of Quality Control Policies and Procedures was completed. If the questions concerning a particular quality control element were not answered in the *Guidelines*, reviewers should place an "X" in the box below the name of that element.

See appendixes B and D of the *Standards for Performing and Reporting on Quality Reviews* (section 3000) for guidance on when a modified report should be issued and what matters should be included in a letter of comments.

YES      NO      N/A

**A. Independence**

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- |   |       |       |       |
|---|-------|-------|-------|
| a. Requires all professional personnel to adhere to applicable independence rules, regulations, interpretations, and rulings?                               | _____ | _____ | _____ |
| b. Communicates its policies and procedures relating to independence to all professional personnel?   | _____ | _____ | _____ |
| c. Requires, when acting as principal auditor, confirmation of the independence of another firm engaged to perform segments of an engagement?               | _____ | _____ | _____ |
| d. Adequately monitors compliance with its policies and procedures relating to independence on a timely basis?  | _____ | _____ | _____ |
| e. Complied with its independence policies and procedures during the period and adequately documented its compliance to the extent required by firm policy? | _____ | _____ | _____ |

**If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions**

YES      NO

2. In your opinion, do the "no" answers in Question 1 above indicate:
- |   |       |       |
|---|-------|-------|
| a. A deficiency in the design of the system of quality control? | _____ | _____ |
| b. Noncompliance with the system of quality control?            | _____ | _____ |

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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YES

NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report?

\_\_\_\_\_

b. Be included in the letter of comments?

\_\_\_\_\_

Reviewer's Signature\_\_\_\_\_

Date\_\_\_\_\_

Team Captain's Signature\_\_\_\_\_

Date\_\_\_\_\_

\* Attach additional pages as necessary in responding to questions on this form.

YESNON/A**B. Assigning Personnel to Engagements**☐ Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- |   |       |       |       |
|---|-------|-------|-------|
| a. Identifies on a timely basis the staffing requirements of specific engagements?  | _____ | _____ | _____ |
| b. Communicates its policies and procedures for assigning personnel to engagements to professional personnel?   | _____ | _____ | _____ |
| c. Appropriately considers the following factors in assigning partners and staff to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization: | _____ | _____ | _____ |
| i. Engagement size and complexity?  | _____ | _____ | _____ |
| ii. Timing of the work to be performed?   | _____ | _____ | _____ |
| iii. Special expertise required?  | _____ | _____ | _____ |
| iv. Continuity and periodic rotation of personnel?  | _____ | _____ | _____ |
| v. Opportunities for on-the-job training?   | _____ | _____ | _____ |
| vi. Personnel availability?   | _____ | _____ | _____ |
| d. Notifies staff of work assignments on a timely basis?  | _____ | _____ | _____ |
| e. Complied with its policies and procedures for assigning personnel to engagements during the period and adequately documented its compliance to the extent required by firm policy?                 | _____ | _____ | _____ |

**If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions**YESNO

2. In your opinion, do the "no" answers in Question 1 above indicate:

- |   |       |       |
|---|-------|-------|
| a. A deficiency in the design of the system of quality control? | _____ | _____ |
| b. Noncompliance with the system of quality control?            | _____ | _____ |

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report?

YES

NO

\_\_\_\_\_

b. Be included in the letter of comments?

\_\_\_\_\_

Reviewer's Signature\_\_\_\_\_

Date\_\_\_\_\_

Team Captain's Signature\_\_\_\_\_

Date\_\_\_\_\_

\* Attach additional pages as necessary in responding to questions on this form.



YES                      NO                      N/A

**C. Consultation**

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- |   |       |       |       |
|---|-------|-------|-------|
| a. Appropriately identifies areas and specialized situations where consultation is required?  | _____ | _____ | _____ |
| b. Designates, if applicable, appropriate individuals as specialists to serve as authoritative sources?   | _____ | _____ | _____ |
| c. Specifies the authority to be accorded specialists in consultations?   | _____ | _____ | _____ |
| d. Provides adequate procedures for resolving differences of opinion between engagement personnel and specialists?  | _____ | _____ | _____ |
| e. Requires and maintains appropriate documentation of the results of consultations, including, if applicable, considerations involved in the resolution of differences of opinion? | _____ | _____ | _____ |
| f. Maintains or provides access to an adequate reference library or other authoritative source?   | _____ | _____ | _____ |
| g. Adequately communicates its policies and procedures relating to consultation to all professional personnel?  | _____ | _____ | _____ |
| h. Complied with its policies and procedures for consultation during the period and adequately documented its compliance to the extent required by firm policy?                     | _____ | _____ | _____ |

**If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions**

YES                      NO

2. In your opinion, do the "no" answers in Question 1 above indicate:
- |   |       |       |
|---|-------|-------|
| a. A deficiency in the design of the system of quality control? | _____ | _____ |
| b. Noncompliance with the system of quality control?            | _____ | _____ |

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report?

YES

NO

\_\_\_\_\_

b. Be included in the letter of comments?

\_\_\_\_\_

Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages as necessary in responding to questions on this form.

YES      NO      N/A

**D. Supervision**

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, and/or discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:
  - a. Has established appropriate procedures for planning engagements? \_\_\_\_\_
  - b. Has established appropriate procedures for maintaining the firm's standards of quality, including:
    - i. Guidelines for the form and content of working papers? \_\_\_\_\_
    - ii. Standardized forms, checklists, questionnaires, and other guidance materials to the extent appropriate? \_\_\_\_\_
    - iii. Adequate supervision at all organizational levels? \_\_\_\_\_
    - iv. Procedures for resolving differences of professional judgment among the engagement team? \_\_\_\_\_
  - c. Has established appropriate procedures for reviewing engagements and for the documentation thereof? \_\_\_\_\_
  - d. Adequately communicates its policies and procedures relating to supervision to all professional personnel? \_\_\_\_\_
  - e. Complied with its policies and procedures for supervision during the period and adequately documents its compliance to the extent required by firm policy? \_\_\_\_\_
  - f. Conformed with professional standards during the period in the performance of the accounting and auditing engagements selected for review? \_\_\_\_\_

**If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions**

YES      NO

2. In your opinion, do the "no" answers in Question 1 above indicate:
  - a. A deficiency in the design of the system of quality control? \_\_\_\_\_
  - b. Noncompliance with the system of quality control? \_\_\_\_\_

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report?

b. Be included in the letter of comments?

YES

NO

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<hr/>	<hr/>

Reviewer's Signature \_\_\_\_\_ Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_ Date \_\_\_\_\_

\* Attach additional pages as necessary in responding to questions on this form.

YESNON/A**E. Hiring**☐ Questions In *Guidelines* Not Answered

1. Based on reading the relevant section in the quality control document and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Adequately plans for the firm's personnel needs and establishes appropriate hiring objectives, based on current clientele, anticipated growth, personnel turnover, etc.?
- b. Identifies relevant attributes, achievements and experience to be sought in hirees?
- c. Appropriately investigates and evaluates the qualifications of prospective employees to assure that they meet the firm's requirements and standards?
- d. Adequately communicates its policies and procedures relating to hiring to those persons involved in the hiring process?
- e. Adequately monitors the effectiveness of its recruiting program?
- f. Informs new personnel of the firm's policies and procedures on a timely basis?
- g. Complied with its policies and procedures relating to hiring during the period and adequately documented its compliance to the extent required by firm policy?

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions**YESNO

2. In your opinion, do the "no" answers in Question 1 above indicate:

- a. A deficiency in the design of the system of quality control?
- b. Noncompliance with the system of quality control?

_____	_____
_____	_____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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YES

NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report?

\_\_\_\_\_

b. Be included in the letter of comments?

\_\_\_\_\_

Reviewer's Signature\_\_\_\_\_

Date\_\_\_\_\_

Team Captain's Signature\_\_\_\_\_

Date\_\_\_\_\_

\* Attach additional pages as necessary in responding to questions on this form.

YES      NO      N/A

### F. Professional Development

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- |   |       |       |       |
|---|-------|-------|-------|
| a. Has established appropriate continuing professional education requirements for personnel at each level within the firm?  | _____ | _____ | _____ |
| b. Adequately monitors development of continuing professional education programs, maintains appropriate records, and monitors the records?  | _____ | _____ | _____ |
| c. Provides personnel with appropriate professional literature relating to current developments on a timely basis?  | _____ | _____ | _____ |
| d. Provides personnel with appropriate programs, including to the extent necessary, programs to fill the firm's needs for personnel with expertise in specialized areas and industries? | _____ | _____ | _____ |
| e. Provides adequate on-the-job training?   | _____ | _____ | _____ |
| f. Adequately communicates its policies and procedures relating to continuing professional education to all professional personnel?   | _____ | _____ | _____ |
| g. Complied with its policies and procedures relating to professional development during the period and adequately documented its compliance to the extent required by firm policy?     | _____ | _____ | _____ |

**If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions**

YES      NO

2. In your opinion, do the "no" answers in Question 1 above indicate:

- |   |       |       |
|---|-------|-------|
| a. A deficiency in the design of the system of quality control? | _____ | _____ |
| b. Noncompliance with the system of quality control?            | _____ | _____ |

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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YES

NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report?

\_\_\_\_\_

b. Be included in the letter of comments?

\_\_\_\_\_

Reviewer's Signature\_\_\_\_\_

Date\_\_\_\_\_

Team Captain's Signature\_\_\_\_\_

Date\_\_\_\_\_

\* Attach additional pages as necessary in responding to questions on this form.



YESNON/A**G. Advancement**☐ Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- |   |       |       |       |
|---|-------|-------|-------|
| a. Has established appropriate qualifications for the various levels of responsibility within the firm?   | _____ | _____ | _____ |
| b. Has identified relevant criteria for evaluating individual performance and expected proficiency?   | _____ | _____ | _____ |
| c. Adequately communicates criteria for evaluating individual performance and expected proficiency to professional personnel?   | _____ | _____ | _____ |
| d. Appropriately evaluates the performance of partners and other professional personnel on a periodic basis.  | _____ | _____ | _____ |
| e. Provides for appropriate documentation of evaluations of performance?  | _____ | _____ | _____ |
| f. Appropriately evaluates the data obtained regarding performance and gives proper recognition in advancement decisions to the quality of work performed?                                  | _____ | _____ | _____ |
| g. Appropriately monitors the firm's advancement experience on a periodic basis to ascertain whether individuals meeting stated criteria are assigned increasing degrees of responsibility? | _____ | _____ | _____ |
| h. Complied with its advancement policies and procedures during the period and adequately documents its compliance to the extent required by firm policy?                                   | _____ | _____ | _____ |

**If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions**YESNO

- |   |       |       |
|---|-------|-------|
| 2. In your opinion, do the "no" answers in Question 1 above indicate: |       |       |
| a. A deficiency in the design of the system of quality control?       | _____ | _____ |
| b. Noncompliance with the system of quality control?                  | _____ | _____ |

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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YES

NO

4. In your opinion, do the "no" answers indicate matters that should:

a. Result in a modified report?

\_\_\_\_\_

b. Be included in the letter of comments?

\_\_\_\_\_

Reviewer's Signature\_\_\_\_\_

Date\_\_\_\_\_

Team Captain's Signature\_\_\_\_\_

Date\_\_\_\_\_

\* Attach additional pages as necessary in responding to questions on this form.

YESNON/A**H. Acceptance and Continuance of Clients**☐ Questions In *Guidelines* Not Answered

1. Based on reading the information obtained from the questionnaire filled out by the reviewed firm, and other relevant written firm materials, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Has established appropriate policies and procedures for evaluating and obtaining information about prospective clients? \_\_\_\_\_
- b. Requires communication with predecessor auditors, if any, in accordance with auditing standards? \_\_\_\_\_
- c. Has established appropriate policies and procedures for evaluating whether the relationship with existing clients should be continued? \_\_\_\_\_
- d. Communicates its policies and procedures for accepting and continuing clients to appropriate personnel? \_\_\_\_\_
- e. Adequately monitors its compliance with its policies and procedures relating to acceptance and continuance of clients? \_\_\_\_\_
- f. Complied with its policies and procedures relating to acceptance and continuance of clients during the period and adequately documents its compliance to the extent required by firm policy? \_\_\_\_\_

**If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions**

YESNO

2. In your opinion, do the "no" answers in Question 1 above indicate:
- a. A deficiency in the design of the system of quality control? \_\_\_\_\_
  - b. Noncompliance with the system of quality control? \_\_\_\_\_

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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- |   | <u>YES</u> | <u>NO</u> |
|---|------------|-----------|
| 4. In your opinion, do the "no" answers indicate matters that should: |            |           |
| a. Result in a modified report?                                       | <hr/>      | <hr/>     |
| b. Be included in the letter of comments?                             | <hr/>      | <hr/>     |

Reviewer's Signature \_\_\_\_\_

Date \_\_\_\_\_

Team Captain's Signature \_\_\_\_\_

Date \_\_\_\_\_

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\* Attach additional pages as necessary in responding to questions on this form.

YES      NO      N/A

## I. Inspection

### ☐ Questions in *Guidelines* Not Answered

1. Based on the reading information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures performed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:

- a. Has established appropriate inspection procedures to provide reasonable assurance that the firm's quality control policies and procedures in other areas are operating effectively?
- b. Has established appropriate qualifications for personnel who participate in inspection activities?
- c. Has performed and documented a comprehensive inspection:
  - i. Covering the year under review?
  - ii. Covering the two preceding years?
- d. Has discussed inspection findings with appropriate personnel?
- e. Has taken or planned appropriate corrective actions with respect to inspection findings?
- f. Adequately monitors the corrective actions taken.

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

### If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

YES      NO

2. In your opinion, do the "no" answers in Question 1 above indicate:
- a. A deficiency in the design of the system of quality control?
  - b. Noncompliance with the sytem of quality control?

_____	_____
_____	_____

3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.\*

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4. In your opinion, do the "no" answers indicate matters that should:

	<u>YES</u>	<u>NO</u>
a. Result in a modified report?	<hr/>	<hr/>
b. Be included in the letter of comments?	<hr/>	<hr/>

Reviewer's Signature\_\_\_\_\_

Date\_\_\_\_\_

Team Captain's Signature\_\_\_\_\_

Date\_\_\_\_\_

\_\_\_\_\_

[The next page is 4801.]

\* Attach additional pages as necessary in responding to questions on this form.

## **QRP Section 4800**

### ***Team Captain Checklist—On-Site Quality Reviews***

.01 This section of the manual contains a team captain checklist for on-site quality reviews. It provides a basic overview of the way in which all on-site quality reviews—regardless of firm size—are to be conducted.

.02 The checklist must be completed on all on-site quality reviews of firms enrolled in the AICPA Quality Review Program, whether those reviews are conducted by a review team formed by a firm engaged by the firm under review, by a state CPA society participating in the program or by the AICPA Quality Review Division (a *committee-appointed review team*), or by an authorized association of CPA firms.

## AICPA Quality Review Program

## TEAM CAPTAIN CHECKLIST—ON-SITE QUALITY REVIEWS

This checklist provides a basic overview of the way in which all on-site quality reviews—regardless of firm size—are to be conducted. It must be completed on all on-site quality reviews of firms enrolled in the AICPA Quality Review Program, whether those reviews are conducted by a review team formed by a firm engaged by the firm under review, by a state CPA society participating in the program or by the AICPA Quality Review Division (a *committee-appointed review team*), or by an authorized association of CPA firms.

On-site quality reviews are administered by state CPA societies participating in the program or, when the relevant state society has not elected to participate, by the AICPA Quality Review Division. Hereafter, those entities are referred to collectively as the *administering entity*.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

	Initial	Date
	_____	_____
<b>I. Prior to the Review</b>		
1. Review the background information furnished by the firm and sent to you by the administering entity.	_____	_____
2. Contact the firm to be reviewed sufficiently in advance of the review (ordinarily, at least three weeks before the review) and—		
a. Confirm the timing of the review and the expected date of the exit conference.	_____	_____
b. Confirm that the administering entity has been notified about the arrangements for the review and that the firm has received acknowledgement of that information.	_____	_____
c. Confirm in all reviews performed by a committee-appointed review team that the firm has returned a signed copy of the engagement letter to the administering entity.	_____	_____
d. Request the firm to provide—		
(i) A copy of its completed quality control policies and procedures questionnaire.	_____	_____
(ii) A client list (see illustration in "Instructions to Reviewed Firms").	_____	_____
(iii) A list of the firm's professional personnel, showing name, position, and years of experience (1) with the firm and (2) in total.	_____	_____
(iv) A copy of the client's 8-K filing notifying the SEC of the change in auditors if the firm has been the auditor for an SEC registrant and has resigned, declined to stand for re-election or been dismissed during the review year to verify that the client/auditor relationship has terminated.	_____	_____
e. If the firm performed an SEC engagement during the review year contact the AICPA Quality Review Division.	_____	_____
f. Confirm that the firm has designated a partner or senior staff member to act as a liaison with the review team.	_____	_____
g. Confirm that persons in the firm responsible for the various quality control functions will be available for interviews during the review, especially at the beginning of the review. (In smaller firms, the managing partner might be the primary source of information about the firm's quality controls.)	_____	_____



	Initial	Date
h. Inquire whether—		
(i) The partners, shareholders, or proprietor of the firm and the firm itself have licenses to practice public accounting in the state(s) in which the firm practices as required by the applicable state board(s) of accountancy.		
(ii) The firm is being or has been investigated during the last three years by any state board of accountancy or AICPA or state society professional ethics committee in connection with the quality of the firm's accounting and auditing practice and, if available, the results thereof.		
(iii) There are any restrictions or limitations on the firm's or its personnel's ability to practice accounting and auditing that were effective during the period since the firm's last peer or quality review (or since enrolling in one of the AICPA practice monitoring programs, whichever is later) and that were imposed by or agreed to with other regulatory, monitoring or enforcement bodies (e.g., SEC, GAO, or DOL). If yes, include in the scope of the quality review an evaluation of the adequacy of the firm's actions to comply with such restrictions or limitations.		
(iv) Any requirements of relevant state boards of accountancy must be met for the review to be accepted by such board(s) as meeting its requirements.		
i. Select a review period that covers a current period of one year and obtain the agreement of the reviewed firm. The review year ordinarily should end about three to four months before the review commences. It does not have to be the same as the firm's fiscal year. Unless the administering entity agrees to another period because of unusual circumstances, the review year must not end before the end of the previous calendar year.		
3. Contact any other review team members and confirm arrangements, including travel and hotel arrangements, with them.		
4. Read the reviewed firm's responses to the appropriate quality control policies and procedures questionnaire to obtain a general understanding of those policies and procedures.		
5. Based on the information provided by the reviewed firm, make a preliminary selection of the practice offices to be visited and the engagements to be reviewed. See the <i>Standards</i> for guidance on the selection of offices and engagements and note that engagements selected for review should be those with years ending during the year under review unless a more recent report has been issued at the time of selection. To minimize any assertion that advance selections may afford undue opportunities for "clean-up" of the working papers, it is preferable that the selection of some engagements not be made known to the firm until the review team arrives.		
a. Assign code numbers to the engagements selected to maintain client confidentiality and request the firm to complete the profile sheets in the engagement review checklists and to assemble the working papers and reports before the review begins.		

- |  | Initial | Date  |
|--|---------|-------|
| b. If the reviewed firm does not permit the working papers for certain engagements to be reviewed, evaluate the reasonableness of the explanation and consider what other actions may be appropriate in the circumstances (see the <i>Standards</i> , on "Scope of the Review"). When the explanation is that the client has refused to allow its engagement to be reviewed, inspect any written communications between the firm and the client and evaluate whether the firm made a good-faith effort to obtain the client's concurrence to the review. | _____   | _____ |

## II. At the Beginning of the Review

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|--|-------|-------|
| 1. Meet with other reviewers to—   |       |       |
| a. Orient them to firm policies and procedures.  | _____ | _____ |
| b. Instruct them in the manner in which working papers, questionnaires, checklists, and MFC forms are to be prepared to facilitate supervision and review.   | _____ | _____ |
| c. Explain the "key audit area" approach to engagement review, noting that the team captain should concur in advance with respect to such decisions.   | _____ | _____ |
| d. Assign responsibilities.  | _____ | _____ |
| 2. If the firm was previously reviewed, consider whether matters, if any, discussed in the firm's prior report, letter of comments, and response thereto require additional emphasis in the current review, and discuss these matters with the other members of the review team. | _____ | _____ |

## III. During the Review

- |  |       |       |
|--|-------|-------|
| 1. Gain, through discussion with the managing partner and/or other key personnel an understanding of the firm's professional and management environment and the business environment in which the firm and its clients practice. (The professional environment established by a firm and the business environment in which it and its clients operate can have a significant impact on the effectiveness of a firm's quality control system. A quality firm has as its overriding objective the provision of audit, accounting, tax, and advisory services to clients in the best professional manner; the reviewer should know whether this philosophy is espoused by the firm and whether it is communicated to and understood by all personnel. Also, the business environment in which the firm and its clients operate can place pressures on professionalism, pressures that only a strong system supported by leadership from the top can ordinarily meet.) | _____ | _____ |
| 2. Make or approve any modifications to programs and checklists issued by the AICPA for the conduct of the review, noting that the <i>Standards</i> provide: "Failure to complete all relevant programs and checklists in a professional manner creates the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the quality review program."  | _____ | _____ |
| 3. Make any additional selection of offices or engagements for review and ascertain that the scope of the review conforms with the guidance in the <i>Standards</i> .  | _____ | _____ |
| 4. Make appropriate arrangements for an exit conference and, for multi-office firms, determine that appropriate arrangements are made for an exit conference at each office visited.   | _____ | _____ |
| 5. Consult with the administering entity or its designee whenever any of the following situations are encountered:   | _____ | _____ |

	Initial	Date
a. The review team feels it may not have the expertise required under the <i>Standards</i> to accomplish the required engagement reviews satisfactorily.		
b. The review team is considering whether to terminate the review because, for example, of a lack of cooperation.		
c. The review team and the reviewed firm have a disagreement on a significant matter, including the type of report to be issued, the letter of comment to be issued, matters that may require the application of the guidance in AICPA Professional Standards, AU 561 and AU 390, and similar matters with respect to engagements to compile or review historical financial statements or to examine prospective financial statements.		
d. There is any uncertainty about the report to be issued or the matters to be included in the letter of comments (see IV. 1).		
6. Consider the need to consult with the administering entity or its designee whenever the following situations are encountered:		
a. Difficulties in complying with the <i>Standards</i> , especially in selecting engagements or offices for review.		
b. Circumstances that may call for issuance of other than an unqualified report.		
7. Prepare or review the applicable checklist, "Guidelines for On-Site Quality Reviews." (There is one checklist for sole practitioners with no professional staff and one for all firms with two or more professionals.)		
8. Prepare or review a summary of "no" answers on engagements reviewed. (The format of the summarization is left to the discretion of the reviewer; however, summary engagement checklists are available in QRP section 6000.)		
a. Ascertain that all significant items are included on an MFC form and		
b. Review the reviewed firm's responses to all such forms, making sure that the form clearly indicates that the reviewed firm agrees with the facts as described or explains its reasons for disagreement.		
9. If it facilitates summarization of the results of the review of the firm as a whole, prepare or review memoranda summarizing the results of the reviews of each office visited using the format suggested in Appendix A to this checklist.		
10. Prepare or review a summary of MFC forms and evaluate the impact of the matters discussed on those forms on the firm's quality control system and its compliance with that system. (The format of the summarization is left to the discretion of the reviewer; however, a summary format is available in QRP section 4900.)		
11. Complete the applicable sections of the "Conclusions of the Review Team on an On-Site Quality Review." The reviewer should only complete those sections for which the corresponding section in the Guidelines for Review of Quality Control Policies and Procedures was completed.		
12. Develop a list of points to be discussed at the firm-wide exit conference, distinguishing between—		
a. Matters that will require modification of the report.		
b. Other matters that will be included in the letter of comments.		
c. Other comments and suggestions.		

- |   | Initial | Date  |
|---|---------|-------|
| 13. Prepare the firm-wide summary review memorandum using the format suggested in Appendix B to this checklist. | _____   | _____ |
| 14. Notify the administering entity promptly if there is a change in the date of the exit conference.           | _____   | _____ |

#### IV. At Completion of the Review

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|--|-------|-------|
| 1. Communicate the review team's findings to senior members of the reviewed firm at an exit conference. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the report and about all significant findings and recommendations that will be included in the letter of comments. Accordingly, except in rare circumstances which should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the letter of comments. Also, at that time discuss the following with the reviewed firm— |       |       |
| a. The report and letter of comments:  |       |       |
| (i) Are to be provided to the reviewed firm within thirty days of the exit conference.   | _____ | _____ |
| (ii) Are to be sent, along with an appropriate response, by the reviewed firm to the administering entity within thirty days of the date it receives the report and letter of comments.  | _____ | _____ |
| b. The letter of response should be addressed to the quality review committee of the administering entity and should describe the remedial or corrective actions taken or planned to prevent a recurrence of each matter described in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement.  | _____ | _____ |
| c. The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.   | _____ | _____ |
| d. The actual time incurred on the review to date and additional time anticipated to complete all aspects of the review.   | _____ | _____ |
| 2. Prepare the report and letter of comments following the guidance in the <i>Standards</i> , and—   |       |       |
| a. Submit the original of such documents to the reviewed firm within thirty days of the date of the exit conference.   | _____ | _____ |
| b. Submit a copy of such documents to the administering entity, along with a copy of the review completion form. (See Appendix A)  | _____ | _____ |
| 3. Complete the summary review memorandum. (See Appendix B)  | _____ | _____ |
| 4. For reviews conducted by committee-appointed review teams—  |       |       |
| a. Prepare evaluations of review team members using the forms supplied by the administering entity and place them in the working papers.   | _____ | _____ |
| b. Send all working papers to the administering entity by an insured carrier in two separate mailings—   |       |       |
| (i) Working papers for reviews of individual engagements.  | _____ | _____ |
| (ii) All other working papers and correspondence. (See Appendix C)   | _____ | _____ |

	<u>Initial</u>	<u>Date</u>
c. Approve bills for time and expenses of review team members and submit them along with your own bill to the administering entity. Make sure the bills include the Federal employer identification number for Form 1099 purposes, when applicable.	<hr/>	<hr/>
5. For all other reviews, send a copy of the firm-wide summary review memorandum, the team captain checklist and the MFC forms to the administering entity. Note that other working papers on these reviews are subject to oversight procedures, which may be applied at a later date.	<hr/>	<hr/>

## Appendix A

## ON-SITE QUALITY REVIEW COMPLETION FORM

Date: \_\_\_\_\_

To: \_\_\_\_\_

From: \_\_\_\_\_  
(Name of the Review Team Captain)Re: Review of \_\_\_\_\_  
Firm Number \_\_\_\_\_ Review Number \_\_\_\_\_

1. On what date was the firm-wide exit conference held? \_\_\_\_\_
2. When was the report delivered to the reviewed firm? \_\_\_\_\_
3. What was the general nature of the report? \* \_\_\_\_\_
4. If the report was modified, what were the reasons for the modification?\* \_\_\_\_\_
5. Where will the working papers be shipped?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
6. When will the working papers be shipped to the entity noted in 5 above? \_\_\_\_\_

\* \* \* \* \*

Team Captain Signature \_\_\_\_\_

\* Please use the report codes on page 4808

**REPORT CODES*****GENERAL NATURE OF THE REPORT***

- 1 Unqualified Without a Letter of Comments
- 2 Unqualified With a Letter of Comments
- 3 Modified—Quality Control System (only)
- 4 Modified—Membership Requirements of the Division for CPA Firms (only)
- 5 Modified—Scope Limitation (only)
- 6 Modified—Quality Control System and Membership Requirements of the Division for CPA Firms
- 7 Adverse

***REASONS FOR QUALITY CONTROL SYSTEM MODIFICATIONS***

- 301 Independence
- 302 Consultation
- 303 Supervision
- 304 Professional Development
- 305 Assigning Personnel to Engagements
- 306 Hiring
- 307 Advancement
- 308 Acceptance of Clients
- 309 Continuance of Clients
- 310 Inspection

## Appendix B

## AICPA Quality Review Program

## INSTRUCTIONS FOR PREPARATION OF SUMMARY REVIEW MEMORANDUM

The purpose of the Summary Review Memorandum is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments, if any, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments. This documentation is required to enable the administering entity to exercise its oversight function in an effective and consistent manner.

The attached form, if properly completed, ordinarily should provide the documentation necessary to meet these objectives. If there is insufficient space to fully describe any matters, additional sheets should be used and attached to the form.

A copy of the summary review memorandum and of the team captain checklist must be submitted to the administering entity for all on-site quality reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations of CPA firms.



## AICPA Quality Review Program

## SUMMARY REVIEW MEMORANDUM FOR ON-SITE QUALITY REVIEWS

Reviewed Firm's Name \_\_\_\_\_

Reviewed Firm's Address \_\_\_\_\_

Quality Review Year End \_\_\_\_\_

**I. Description of Firm****A. Professional Staff Profile** (if the firm has more than one office, provide a breakdown by office):

	<i>Office 1</i>	<i>Office 2</i>	<i>Office 3</i>	<i>Total</i>
Partners (or equivalent)	_____	_____	_____	_____
Managers (or equivalent)	_____	_____	_____	_____
Other Professionals	_____	_____	_____	_____
	=====	=====	=====	=====

**B. Indicate extent of industry specializations, if any:**

\_\_\_\_\_

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**II. Planning the Review****A. Composition of Review Team:**

1. Team Captain \_\_\_\_\_  
Firm \_\_\_\_\_ Position \_\_\_\_\_  
Areas of Experience <sup>1</sup> \_\_\_\_\_
2. Team Member \_\_\_\_\_  
Firm \_\_\_\_\_ Position \_\_\_\_\_  
Areas of Experience <sup>1</sup> \_\_\_\_\_
3. Team Member \_\_\_\_\_  
Firm \_\_\_\_\_ Position \_\_\_\_\_  
Areas of Experience <sup>1</sup> \_\_\_\_\_

<sup>1</sup> As it relates to the reviewed firm's practice.

- B. Describe basis for and degree of reliance, if any, on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

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- C. If the firm was previously reviewed, indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review and how that was done.

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- D. Development of Review Program:

1. Describe any significant deviations from AICPA programs and checklists and explain reason:

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2. Describe major considerations in selection of offices for review, and indicate whether and how requirements of relevant state boards of accountancy in that regard were met in order for the review to be accepted by such board(s) as the equivalent of ones performed under the board's own positive enforcement program:

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3. Describe major considerations in selection of engagements for review:

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E. Important Dates:

Commencement of Review \_\_\_\_\_

Exit Conference \_\_\_\_\_

Issuance of report and, if applicable, letter of comments \_\_\_\_\_

Mailing of working papers (committee-appointed review teams only) or team captain checklist and SRM to Administering Entity \_\_\_\_\_

**III. Scope of Work Performed****A. Accounting and Auditing Statistics:**

	Total		Offices					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
Audits:								
Subject to <i>Government Auditing Standards</i> <sup>2</sup>								
ERISA								
Financial Institutions								
Brokers and Dealers								
in Securities								
Other								
Reviews								
Compilations <sup>3</sup>								
Other Accounting Services <sup>4</sup>								

**B. Engagements Reviewed:**

	Total		Offices					
	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.	Hrs.	No. of Engs.
Audits:								
Subject to <i>Government Auditing Standards</i> <sup>2</sup>								
ERISA								
Financial Institutions								
Brokers and Dealers								
in Securities								
Other								
Reviews								
Compilations <sup>3</sup>								
Other Accounting Services <sup>4</sup>								
Percentage of A&A Practice Reviewed								

<sup>2</sup> Includes only audits conducted pursuant to the *Government Auditing Standards* such as government organizations, programs, activities and functions, and government funds received by contractors, nonprofit organizations and other nongovernmental organizations.

<sup>3</sup> The number of engagements should include all compilations, including all monthly, quarterly and annual compilations for which reporters were issued.

<sup>4</sup> Encompasses all other accounting and auditing services for which professional standards have been established.

- C. Were you requested not to review any engagements? Yes \_\_\_\_ No \_\_\_\_ . If yes, describe the reason for the request, whether you were satisfied as to the reason, and how this affected the scope of the review.

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**IV. Overall Findings and Conclusions:**

- A. Attach a copy of the report issued.
- B. Was a letter of comments issued? Yes \_\_\_\_ No \_\_\_\_ . If yes, attach a copy. If no, comment briefly on the reviewer's findings in relation to that decision.

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- C. Has the firm performed an annual inspection since its last review? Yes \_\_\_\_ No \_\_\_\_ . If the results of the firm's most recent inspection were evaluated by the review team (not required for reviews of firms with up to ten professionals), do the inspection findings differ in one or more significant respects from the findings of the quality review? Yes \_\_\_\_ No \_\_\_\_ . If yes, briefly describe the general nature of the differences and their effects on the scope of the review.

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- D. In a review of a multi-office firm, did the review team conclude that the degree of noncompliance at one or more offices was of such significance that a condition was created in which there was more than a remote possibility that the office(s) would not conform with professional standards on accounting and auditing engagements? Yes \_\_\_\_ No \_\_\_\_ If yes, briefly describe the nature and extent of the deficiencies noted in the office(s) or attach a copy of the summary review memorandum prepared on that office.

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- E. If a letter of comments was issued, were there any matters included in the letter that did not result in a modified report for which the review team considered modifying the report? Yes \_\_\_\_ No \_\_\_\_ If yes, describe such matters fully, including the basis for the conclusion that a report modification was not warranted.

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- G. Did the review disclose any situations that led the reviewers to conclude that the financial statements did not conform in all material respects with generally accepted accounting principles (or, if applicable, a comprehensive basis of accounting other than GAAP) and the auditor's/accountant's report was not appropriately modified? (AU561 and ET203) Yes \_\_\_\_ No \_\_\_\_.<sup>6</sup>  
If yes:

1. Describe such situations fully. \_\_\_\_\_

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2. Indicate whether the firm considered the matter. \_\_\_\_\_

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3. Describe the actions the firm has taken or plans to take. \_\_\_\_\_

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4. If the firm has taken the necessary actions, indicate whether you have reviewed documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and whether the actions are appropriate.

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5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. \_\_\_\_\_

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<sup>6</sup> These situations should be reflected on the Engagement Statistics Data Sheet in Attachment 1. Also, when there is a disagreement with the reviewed firm about these situations, the reviewers should consult with the administering entity or its designee.



- H. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards including, where applicable, governmental auditing standards (AU390 and ET202)? Yes \_\_\_\_ No \_\_\_\_.<sup>7</sup> If yes:

1. Describe such situations fully. \_\_\_\_\_

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2. Indicate whether the firm considered the matter. \_\_\_\_\_

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3. Describe the actions the firm has taken or plans to take. \_\_\_\_\_

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4. If the firm has performed the additional procedures necessary to support the previously issued opinion, indicate whether you have reviewed the documentation of the additional procedures and whether the conclusions reached are appropriate. \_\_\_\_\_

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5. If the firm has not performed the necessary procedures, indicate whether you concur with the planned actions. \_\_\_\_\_

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<sup>7</sup> See footnote 6.

- I. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with standards for accounting and review services (ET202)? Yes \_\_\_\_ No \_\_\_\_.<sup>8</sup> If yes:

1. Describe such situations fully. \_\_\_\_\_

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2. Indicate whether the firm considered the matter. \_\_\_\_\_

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3. Describe the actions the firm has taken or plans to take. \_\_\_\_\_

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4. If the firm has completed the necessary actions, indicate whether you have reviewed documentation of such actions. \_\_\_\_\_

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5. If the firm has not yet taken the necessary actions, indicate whether you concur with its planned actions. \_\_\_\_\_

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<sup>8</sup> See footnote 6.

- J. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for accountants' services on prospective financial information or any other standards not encompassed in items G, H, and I of this section? Yes \_\_\_\_ No \_\_\_\_.<sup>9</sup> If yes:

1. Describe such situations fully. \_\_\_\_\_

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2. Indicate whether the firm considered the matter. \_\_\_\_\_

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3. Describe the actions the firm has taken or plans to take. \_\_\_\_\_

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4. If the firm has completed the necessary actions, indicate whether you have reviewed documentation of such actions. \_\_\_\_\_

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5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. \_\_\_\_\_

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<sup>9</sup> See footnote 6.

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- Actual Review  
Hours**

D. \_\_\_\_\_

Total Review Hours \_\_\_\_\_

**Team Captain**

Date \_\_\_\_\_

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**ATTACHMENT 1**  
**ENGAGEMENT STATISTICS DATA SHEET \***  
**(To Be Completed On All Reviews)**

**I. Engagement Statistics**

<i>Type of Engagement</i>	<i>Total No. Reviewed</i>	<i>Total No. Substandard</i>
Audits—Governmental	_____	_____
Audits—Other	_____	_____
Reviews	_____	_____
Compilations	_____	_____
Other Accounting Services	_____	_____
Total	=====	=====

**REASON CODES**

Substandard Engagement Reason Codes  
 GAA Non-GAAS and Non-GAAP  
 GAP Non-GAAP  
 GAS Non-GAAS  
 SAR Non-SSARS

**ACTION CODES**

Substandard Engagement Action Codes  
 1. Report and/or financial statements recalled, revised and reissued  
 2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent)  
 3. Omitted auditing procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent)  
 4. Cause of independence impairment eliminated  
 5. Unable to apply omitted procedures  
 6. Notified parties that no reliance should be placed on the report issued

**II. Reasons for Substandard Engagements**

<i>Type of Engagement Reviewed</i>	<i>Reason Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

**III. Actions To Be Taken on Substandard Engagements**

<i>Type of Engagement Reviewed</i>	<i>Action Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

**IV. Engagements Excluded from Review**

<i>Type of Engagement Reviewed</i>	<i>Reason Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

**EXCLUDED ENGAGEMENT REASON CODES**

1. Subject of litigation
2. Subject of investigation by government agency
3. Client imposed restrictions
4. Other

\* The information reflected on this sheet should agree with the information reflected in Items III.A, IV.G, IV.H, IV.I, and IV.J of the summary review memorandum.

## ATTACHMENT 2

## Cost Information

(Required only for committee-appointed review teams)

## A. Budget to Actual Comparison

	<i>Budgeted Hours</i>	<i>Actual Hours</i>		
		<i>Total</i>	<i>Team Captain</i>	<i>Team Member(s)</i>
Planning	_____	_____	_____	_____
Engagement Review	_____	_____	_____	_____
Quality Control System Review	_____	_____	_____	_____
Exit Conference	_____	_____	_____	_____
Report	_____	_____	_____	_____
Letter of Comments	_____	_____	_____	_____
Other (describe if significant)	_____	_____	_____	_____
Total Hours	_____	_____	_____	_____
Range per Engagement Letter	_____			
Rate/Hour			_____	_____
Total Amount			_____	_____

B. Was the actual review time discussed with the firm? Yes \_\_\_ No \_\_\_.

C. Does actual time exceed the upper end of the estimated range? Yes \_\_\_ No \_\_\_. If yes, describe the reasons for the overrun, indicate that the matter has been discussed with the reviewed firm, and indicate whether the overrun is acceptable to the firm.

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Team Captain \_\_\_\_\_

Date \_\_\_\_\_

## Appendix C

### Index for Non-Engagement Related Working Papers

Ref.	Section Description	X Where Applicable
A	Quality Review Report	<input type="checkbox"/>
B	Letter of Comments	<input type="checkbox"/>
C	Prior Review Report, Letter of Comments and Letter of Response	<input type="checkbox"/>
D	Team Captain Checklist (QRP Section 4800)	<input type="checkbox"/>
E	Summary Review Memorandum (QRP Section 4800)	<input type="checkbox"/>
<b>PLANNING</b>		
F	Engagement Letter	<input type="checkbox"/>
G	Firm Background Information	<input type="checkbox"/>
H	Firm Quality Control Document	<input type="checkbox"/>
I	Quality Control Policies and Procedures Questionnaire (QRP Section 4200 or 4300)	<input type="checkbox"/>
J	Planning Conference Memorandum	<input type="checkbox"/>
K	Preliminary Selection of Engagements	<input type="checkbox"/>
L	Other Planning Materials	<input type="checkbox"/>
<b>PERFORMANCE</b>		
M	Guidelines for Review of Quality Control Policies and Procedures (QRP Section 4400 or 4500)	<input type="checkbox"/>
N	Staff Interview Questionnaires (QRP Section 4600)	<input type="checkbox"/>
O	Summary of "No" Answers on Engagements (QRP Section 6000)	<input type="checkbox"/>
P	Summary of Matter for Further Consideration Forms (QRP Section 4900)	<input type="checkbox"/>
Q	Matter for Further Consideration Forms	<input type="checkbox"/>
R	Conclusions of the Review Team (QRP Section 4700)	<input type="checkbox"/>
S	Other Performance Related Materials	<input type="checkbox"/>
<b>REPORTING</b>		
T	List of Points for the Exit Conference	<input type="checkbox"/>
U	Exit Conference Memorandum	<input type="checkbox"/>
V	Other Reporting Materials	<input type="checkbox"/>
<b>ADMINISTRATION</b>		
W	Time Summaries	<input type="checkbox"/>
X	Evaluation of Team Members	<input type="checkbox"/>
Y	Other Miscellaneous Correspondence	<input type="checkbox"/>

**Appendix D**

(Optional)

**Comments to Improve Auditing Standards**

A significant potential benefit of the peer review and quality review program is the opportunity it provides to identify areas of practice where improvements can be made in the professional standards. Representatives of the SECPS and PCPS Peer Review Committees and the AICPA Quality Review Executive Committee meet annually with representatives of the Auditing Standards Board to discuss the implications of peer review and quality review results for standard setting. However, the committees believe the personal advice of those participating in peer reviews and quality reviews needs to be added to the process.

Your observations of the policies and practices in many different firms and your judgments about the efficient and effective application of professional standards are potentially valuable sources of input for the Board. The Auditing Standards Board would appreciate receiving your comments on the attached questions as well as any other information that would be helpful to the standard-setting process. Responses should address areas where standards can be improved rather than specific peer or quality review engagements and should not include the names of any reviewed firms. Responses should be sent directly to Dan M. Guy, Vice President-Auditing, AICPA, 1211 Avenue of the Americas, New York, NY 10036. The Auditing Standards Board thanks you in advance for your contribution.



## Team Captain Checklist—On-Site Quality Reviews

AICPA Quality Review Program Questionnaire

(use additional sheet for your comments, if necessary)

1. Is there particular guidance in any Statement on Auditing Standards or auditing interpretation that practitioners have difficulty applying? Yes \_\_\_\_ No \_\_\_\_ Please cite specific paragraph numbers of the pronouncements to which the problems relate and descriptions of those problems.

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2. If you identified a problem above please make specific suggestions for making the pronouncements clearer or more useful.

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3. Have you identified any other areas of practice where additional guidance is needed? Yes \_\_\_\_ No \_\_\_\_ If yes, please provide a description of those areas.

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Team Captain \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Date \_\_\_\_\_

[The next page is 4901.]

# QRP Section 4900

## *Instructions for Use of Matter for Further Consideration Forms*

.01 A reviewer should prepare a matter for further consideration form (MFC) to clearly and concisely document all significant matters that require additional information or explanation of the facts from the reviewed firm.

.02 If a MFC form is prepared during the course of the review and subsequent information indicated that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter has been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated that documentation in a particular area was inadequate, but the reviewer reconsidered and decided that documentation was adequate.) On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.

.03 The matters discussed on an MFC form should be classified as follows—

**Performance**—The reviewer believes that the reviewed firm failed to adhere to professional standards, including GAAP, GAAS, GAGAS, and SSARS.

**Compliance**—The reviewer believes that the reviewed firm did not comply with one of its prescribed policies or procedures even though it did comply with professional standards.

**Documentation**—The reviewer believes that the work performed in a particular area was not documented but, through inquiry or other means, the reviewer is satisfied that the work was performed.

**Design**—The reviewer believes that the firm's quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective.

.04 Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.

.05 MFCs relating to both functional and engagement review areas should be sorted by nature of comment.

.06 The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. Matter for Further Consideration forms should be summarized to facilitate these considerations. The format of summarization is left to the discretion of the reviewer; however, a summary format is included on page 4903. Reviewers may use this summary format or develop their own.

MATTER FOR FURTHER CONSIDERATION

REVIEWER'S DESCRIPTION OF THE MATTER

CONTROL NO. \_\_\_\_\_

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER?

YES \_\_\_\_ NO \_\_\_\_

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS

Type of Matter:

Performance \_\_\_\_\_

Compliance \_\_\_\_\_

Documentation \_\_\_\_\_

Design \_\_\_\_\_

TEAM CAPTAIN'S COMMENTS, IF ANY

FIRM \_\_\_\_\_

CONTROL NO. \_\_\_\_\_

OFFICE CODE NO. \_\_\_\_\_

*Signatures**Dates*

Engagement Partner \_\_\_\_\_

Reviewer \_\_\_\_\_

Team Captain \_\_\_\_\_

*Program Questionnaire**Engagement*

Section \_\_\_\_\_ No. \_\_\_\_\_

Element \_\_\_\_\_ Checklist Page \_\_\_\_\_

Program Step \_\_\_\_\_ Question \_\_\_\_\_

## Summary of Matter for Further Consideration Forms

(Name of Reviewed Firm)

MFC Number	Type of Matter *	Brief Description of Matter	Reference **	Does this matter, individually or collectively, result in a "no" answer in Section 4700	
				Yes/No	Briefly explain reasons If yes, indicate Section 4700 Reference

\* The reviewer should classify each matter discussed on an MFC form as a deficiency relating to either a) performance, b) compliance, c) documentation, or d) design.

\*\* The reviewer should indicate the program or engagement checklist step that led to the MFC.

**QRP Section 5000**

**ON-SITE REVIEW ENGAGEMENT CHECKLISTS**

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**TABLE OF CONTENTS**

<i>Section</i>		<i>Paragraph</i>
5100	Instructions for Use of Engagement Checklists	
	General .....	.01-.03
	Engagement Checklists .....	.04-.07
	Techniques for Review of Engagements .....	.08-.13
5200	General Audit Engagement Checklist	
5300	General Review Engagement Checklist	
5400	General Compilation Engagement Checklist	
5500	Governmental Audit Engagement Checklist	
5600	Not-for-Profit Audit Engagement Checklist	
5700	Audit Engagement Supplements	
5800	Prospective Financial Statement Engagement Checklist	

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# QRP Section 5100

## *Instructions for Use of Engagement Checklists*

### General

.01 The review of engagements should include review of financial statements, accountants' reports, working paper files, and correspondence, as well as discussions with professional personnel of the reviewed firm.

.02 The review of audit engagements should ordinarily include all key areas of the engagements selected to determine whether well-planned, appropriately executed, and suitably documented procedures were performed in accordance with professional standards and the reviewed firm's quality control policies and procedures.

.03 Since, in most cases the engagement personnel will not be responsible for establishing firm policies, the reviewer should not challenge firm policies in discussions with engagement personnel. If any questions or observations regarding the appropriateness of the firm's policies and procedures develop as a result of the engagement reviews, these matters should be discussed with the team captain.

### Engagement Checklists

.04 The following checklists have been developed for use by review teams performing on-site quality reviews and are contained in this section of the manual:

- |  |                    |
|--|--------------------|
| a. General Audit Engagement Checklist  | (QRP Section 5200) |
| b. General Review Engagement Checklist   | (QRP Section 5300) |
| c. General Compilation Engagement Checklist  | (QRP Section 5400) |
| d. Governmental Audit Engagement Checklist   | (QRP Section 5500) |
| e. Not-for-Profit Audit Engagement Checklist   | (QRP Section 5600) |
| f. Supplemental Checklist for Review of Bank Audit Engagements                                 | (QRP Section 5710) |
| g. Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements | (QRP Section 5720) |
| h. Supplemental Checklist for Review of Construction Contractor Engagements                    | (QRP Section 5730) |
| i. Supplemental Checklist for Review of Audits of Employee Benefit Plans                       | (QRP Section 5740) |
| j. Supplemental Checklist for Review of Common Interest Realty Associations                    | (QRP Section 5750) |
| k. Supplemental Checklist for Review of Providers of Health Care Service Engagements           | (QRP Section 5760) |

- l. Supplemental Checklist for Review of Audits of HUD Engagements (QRP Section 5770)
- m. Prospective Financial Statement Engagement Checklist (QRP Section 5800)

.05 The general engagement checklists were developed for use in reviewing engagements of "for-profit" companies. They will require extensive modification or supplementation for engagements involving companies in specialized industries, such as insurance and finance companies. Reviewers may wish to refer to the specialized industry disclosure checklists and illustrative financial statements published by the AICPA.

.06 The engagement review checklists (which can be used for most engagements) contain the following sections<sup>1</sup>—

- a. The first section of each checklist contains questions on the accountant's report and the related financial statements and footnotes. This section of the checklist ordinarily would be completed for each engagement reviewed. However, on quality reviews of firms that have their own report and financial statement disclosure checklist that is completed by the firm's personnel and filed with the engagement working papers, this section may not have to be completed for each engagement. In such situations, the comprehensiveness of the firm's checklist and the appropriateness of its use on specific engagements should be tested by the review team. Any disclosure or reporting deficiencies identified by the reviewer should be noted in the comments section of the engagement checklist or on a "Matter for Further Consideration" (MFC) form.
- b. The second section of the checklist contains questions concerning planning and other general procedures that normally should be performed for the applicable level of service (e.g., audit review or compilation). This section should be completed for each engagement reviewed.
- c. The third section included in the general audit engagement checklist contains questions relating to specific audit areas. It is not ordinarily necessary to answer all parts of this section because of the emphasis on key audit areas. (See paragraph .09 below for a discussion of the "key audit area" approach.)
- d. The fourth section of the checklist for review of audit engagements and the third section of the checklists for review of review and compilation engagements contains questions concerning the nine quality control areas. These questions are based on the typical policies and procedures that might be established by a firm. All the policies and procedures included in these questions will not have been adopted by all firms. Therefore, the team captain should determine, before the engagement reviews are conducted, if modifications to the checklists are necessary to fit the policies and procedures adopted by the reviewed firm. For example, a number of the questions are not applicable to sole practitioners without full-time professional staff. Each part of this section should be completed for each engagement reviewed.

.07 Audit Engagement Supplements have been developed to facilitate the reviews of audit engagements within specialized industries. At the present time, the checklists that have been approved by the Quality Review Executive Committee are listed in 5100.04. The checklist for Construction Contractors and Voluntary Health and Welfare Organizations may also be useful on reviews and compilations.

## Techniques for Review of Engagements

.08 Background information about an engagement should be obtained by discussion with the engagement partner and by reading the engagement profile sheet (which should be completed by the reviewed firm prior to commencement of the review of the engagement), the primary financial statements and any program sections,

<sup>1</sup>The Governmental Audit Engagement Checklist includes all of the sections discussed herein, as well as an additional section on compliance with the requirements of the Single Audit Act of 1984.

memoranda or other working papers describing the company and its business, the firm's audit approach and problem areas.

.09 Most reviewers find it effective to perform the review—that is, read the financial statements and the related report, review the “top files,” applicable sections of the audit programs, correspondence files, consolidating working papers and other “key audit area” working papers—and then complete the engagement checklist. Any unanswered questions on the checklist are then completed by additional reference to the engagement files.

.10 The depth of review of working papers for particular engagements is left to the judgment of the reviewers; however, the review should ordinarily include all the key areas of an engagement. A page-by-page review of all working papers is *not* necessary. Points to be considered in determining the key areas include—

- a. Key areas in the client's industry (e.g., revenue recognition for construction companies; inventories and accounts receivable for manufacturing and retail concerns; or loan loss allowances for financial institutions).
- b. Key areas noted during the review of the financial statements and discussions with engagement personnel (e.g., review of loan defaults or follow-up of litigation matters).
- c. Key areas identified by the firm in planning or conducting the engagement.
- d. Recent accounting and auditing developments and pronouncements.
- e. Weaknesses noted in other engagements reviewed.
- f. Weaknesses noted by the firm during its inspection program.
- g. Weaknesses noted in the prior quality review or peer review.

.11 Ordinarily, in applying the “key area” concept, all key areas should be reviewed. However, to keep time requirements within reasonable limits, reviewers may decide not to review all key areas of a specific engagement. In such cases, the reviewer should document in the working papers the reasons why all key areas were not reviewed. The reviewer should also exercise judgment in determining how many accounting and auditing hours to claim with respect to the engagement.

.12 For each engagement reviewed (audits, reviews, and compilations), the *Standards* require the review team to document whether anything came to its attention that caused it to believe that—

- a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles (or, if applicable, an other comprehensive basis of accounting).
- b. The firm did not have a reasonable basis under applicable professional standards for the report issued.
- c. The documentation on the engagement did not support the report issued.
- d. The firm did not comply with its quality control policies and procedures in all material respects.

.13 If the review team reaches a negative conclusion with respect to items a., b., or c. above, the team captain should promptly inform an appropriate member of the reviewed firm (generally on a “Matter for Further Consideration” form). The reviewed firm should investigate the matter questioned by the review team and determine what action, if any, should be taken. The reviewed firm should advise the team captain of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required. If the reviewed firm believes that it can continue to support its previously issued report and the review team continues to believe that there may be a significant failure to reach appropriate conclusions in the application of professional standards, the review team should pursue any remaining questions with the reviewed firm and, if necessary, with the entity administering the review. The review team should also consider expanding the scope of



the review by selecting additional engagements to determine the extent and cause of significant departures from professional standards.

.14 In evaluating the reviewed firm's response, the review team should recognize that it has not made an examination of the financial statements in question in accordance with generally accepted auditing standards and that it has not had the benefit of access to client records, discussions with the client, or specific knowledge of the client's business. Nevertheless, a disagreement on the resolution of the matter may persist in some circumstances and the reviewed firm should be aware that it may be requested to refer unresolved matters to the AICPA quality review executive committee for a final determination.

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# QRP Section 5200

## General Audit Engagement Checklist

### ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_  
 Partner \_\_\_\_\_ Date of Financial Statements \* \_\_\_\_\_  
 Manager \_\_\_\_\_ Date of Report \_\_\_\_\_  
 Concurring Reviewer \_\_\_\_\_ Date Report Released \_\_\_\_\_

Is this client a part of other related groups? Yes\_\_\_ No\_\_\_

The responsibility of this engagement involves reporting on:

- |   |  |
|---|--|
| <input type="checkbox"/> financial statements (single entity) | <input type="checkbox"/> limited reviews                   |
| <input type="checkbox"/> consolidated financial statements    | <input type="checkbox"/> unaudited interim statements      |
| <input type="checkbox"/> subsidiary, division or branch       | <input type="checkbox"/> loan agreement compliance letters |
| <input type="checkbox"/> special reports                      | <input type="checkbox"/> other (explain)                   |

Was the work performed at the request of another office? Yes\_\_\_ No\_\_\_

Date that the fee for the prior year's engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total assets \$ \_\_\_\_\_  
 Equity \$ \_\_\_\_\_  
 Net sales \$ \_\_\_\_\_  
 Net income \$ \_\_\_\_\_

Major lines of business:

Complex or troublesome audit areas:

Personnel Continuity:

	<i>Partner</i>	<i>Manager or equivalent</i>
Number of years assigned to this job .....	_____	_____
Number of years in current position on the job .....	_____	_____

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner .....	_____	_____	_____	_____
Manager (or equivalent) .....	_____	_____	_____	_____
Senior .....	_____	_____	_____	_____
Concurring Reviewer ** .....	_____	_____	_____	_____
Other .....	_____			
Total this office .....	=====			
Total budgeted .....	_____			

#### LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II and IV should be answered in addition to the key areas identified.

- |    |     |
|----|-----|
| 1. | 7.  |
| 2. | 8.  |
| 3. | 9.  |
| 4. | 10. |
| 5. | 11. |
| 6. | 12. |

Date Engagement Review Performed \_\_\_\_\_

Date Checklist Reviewed by Team Captain \_\_\_\_\_

Reviewer \_\_\_\_\_

Signature \_\_\_\_\_

\*\* Not applicable on quality reviews only and on reviews of non-SEC clients unless required by firm policy.

## Checklist for Review of Audit Engagements

## Contents

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NOTE: This checklist has been updated through SAS No. 71, SFAS No. 109, and FASB Interpretation No. 38.

**Explanation of References:**

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
QC	Quality Control Standards <i>AICPA Professional Standards</i> (vol. 2)
SOP	AICPA Statement of Position

NOTE: Because of the financial assistance that HUD projects receive, the HUD auditor must be fully aware of and comply with *Government Auditing Standards* (1988 revision), referred to as the "Yellow Book." These standards, which have been issued by the Comptroller General of the United States, became effective for HUD audits with fiscal years beginning on or after January 1, 1989. Reviewers of engagements should use the general audit checklist and Appendix A of the *Checklist for Review of Audit Engagements of State and Local Governmental Entities*, including those receiving Federal Financial Assistance when reviewing HUD audits, if applicable, and SOP 90-4.

## I. REPORT AND FINANCIAL STATEMENTS

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. Reviewers may wish to consult that checklist for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Auditor's Report</b>					
Is the report dated in conformity with the requirements of professional standards? (AU Secs. 504.15-.17, 508.08 and .74 and .82 and 530)	A101	_____	_____	_____	_____
Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards? (AU Secs. 508.08-.10 and 623)	A102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented?	A103	_____	_____	_____	_____
If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included an appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)	A104	_____	_____	_____	_____
If supplemental information accompanies the basic financial statements, does the auditor describe in his report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)	A105	_____	_____	_____	_____
For special reports, have professional standards been complied with regarding:					
Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (AU Sec. 623.02-.10)	A106	_____	_____	_____	_____
Specified elements, accounts or items of a financial statement? (AU Secs. 622 and 623.11-.18)	A107	_____	_____	_____	_____
Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? (AU Sec. 623.19-.21)	A108	_____	_____	_____	_____
Financial presentations to comply with contractual agreements or regulatory provisions? (AU Sec. 623.22-.30)	A109	_____	_____	_____	_____
Financial information in prescribed forms or schedules (AU Sec. 623.32-.33)	A110	_____	_____	_____	_____
For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with professional standards? (AU Sec. 534)	A111	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Financial Statements and Notes</b>					
<b>General</b>					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	A112	_____	_____	_____	_____
Is the presentation appropriate and disclosure adequate regarding:					
Significant accounting policies? (AC Sec. A10.105-.108)	A113	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	A114	_____	_____	_____	_____
Comparative financial statements? (AC Sec. F43.01)	A115	_____	_____	_____	_____
Business combinations? (AC Sec. B50)	A116	_____	_____	_____	_____
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)	A117	_____	_____	_____	_____
If an individual or entity controls a group of related entities, did the auditor consider the need for combined financial statements? (AC Sec. C51.121)	A118	_____	_____	_____	_____
Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed? (AC Sec. F25.112 and .115)	A119	_____	_____	_____	_____
Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed? (FAS No. 107.10-.14)	A120	_____	_____	_____	_____
Are required disclosures made concerning related party transactions? (AC Sec. R36)	A121	_____	_____	_____	_____
Are required disclosures made regarding significant dependence on one or more major customers or suppliers? (AC Sec. S20.101-.107, .127 and .145)	A122	_____	_____	_____	_____
Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed? (AC Sec. F60)	A123	_____	_____	_____	_____
Are foreign operations and export sales adequately disclosed? (AC Sec. F65)	A124	_____	_____	_____	_____
Are nonmonetary transactions properly accounted for and disclosed? (AC Secs. N35 and C11)	A125	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies disclosed and/or accrued as appropriate? (AC Sec. C59.104-.114)	A126	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	A127	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Secs. 560.03-.09 and 561)	A128	_____	_____	_____	_____
Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)	A129	_____	_____	_____	_____
Are all other pension plans adequately disclosed?	A130	_____	_____	_____	_____
Is the required information on defined benefit postretirement plans adequately disclosed? (AC Sec. P40.169)	A131	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Are postemployment health care and life insurance benefits under FAS No. 81 and FASB Technical Bulletin 87-1 properly disclosed? (AC Sec. P50.102-.103)	A132	_____	_____	_____	_____
If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De.104-.109)	A133	_____	_____	_____	_____
Do the financial statements, where required, include appropriate presentations of:					
Segment information? (AC Sec. S20)	A134	_____	_____	_____	_____
Futures contracts? (AC Sec. F80)	A135	_____	_____	_____	_____
If there are prior period adjustments:					
Are only corrections of an error in the financial statements of a prior period and adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries reported as prior period adjustments (excluding the manner of reporting accounting changes retroactively)? Is the disclosure adequate?	A136	_____	_____	_____	_____
If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated?	A137	_____	_____	_____	_____
<b>Balance Sheet</b>					
Is the presentation appropriate and disclosure adequate regarding:					
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05.104)	A138	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	A139	_____	_____	_____	_____
Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)	A140	_____	_____	_____	_____
Marketable equity securities? (AC Sec. I89)	A141	_____	_____	_____	_____
Other marketable securities? (AC Sec. I89.103)	A142	_____	_____	_____	_____
Accounts and Notes Receivable:					
Unbilled receivables? (AC Sec. Co5.108)	A143	_____	_____	_____	_____
Loans and related origination fees? (AC Sec. L20.104-.106 and .120)	A144	_____	_____	_____	_____
Effect of interest rates which do not reflect market rates? (AC Sec. I69.109)	A145	_____	_____	_____	_____
Receivables related to troubled debt restructurings? (AC Sec. D22.136-.137 and .501-.505)	A146	_____	_____	_____	_____
Other receivables?	A147	_____	_____	_____	_____
Inventories? (AC Secs. B05.105 and I78)	A148	_____	_____	_____	_____
Investments? (AC Sec. I82.109-.110)	A149	_____	_____	_____	_____
Property and equipment, including accounting for assets of discontinued operations, investment credit, and capitalized interest? (AC Secs. D40.105, I13.108, I67 and I32)	A150	_____	_____	_____	_____
Sales-type, direct financing, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)	A151	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges? (AC Secs. I60, Co2.106-.110, I24 and I25)	A152				
Pledged assets? (AC Sec. C59.120)	A153				
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	A154				
Current liabilities? (AC Sec. B05.108-.109 and .118)	A155				
Short-term liabilities expected to be refinanced? (AC Sec. B05.112-.117 and .138-.139)	A156				
Notes payable and other debt:					
Maturities and rates? (AC Sec. C32.105)	A157				
Other terms and covenants? (AC Sec. C59.120)	A158				
Effect of interest rates which do not reflect market rates? (AC Sec. I69)	A159				
Effect of troubled debt restructurings? (AC Sec. D22.121)	A160				
Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)	A161				
Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	A162				
Capital leases of lessees? (AC Sec. L10.106 and .112)	A163				
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue? (AC Sec. C44.104 and .108 and FAS No. 109.43-.44)	A164				
Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	A165				
Stock option and stock purchase plans? (AC Sec. C47)	A166				
Stock subscriptions receivable? (EITF 85-1)	A167				
Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)	A168				
Changes in stockholders' equity? (AC Secs. C08.102 and A35.103, .105 and .107)	A169				
Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)	A170				
<b>Income Statement</b>					
Are the important components of the income statement separately disclosed?	A171				
Is the presentation appropriate and disclosure adequate regarding:					
Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions? (AC Secs. R10 and Co4.110 and .112)	A172				



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Gains and losses, realized and unrealized, from marketable equity securities? (AC Sec. I82.106 and .110)	A173				
Income and income taxes on investments in securities accounted for on the equity method? (AC Sec. I82.109)	A174				
Research and development costs? (AC Sec. R50)	A175				
Computer software costs? (AC Sec. Co2.110-.111)	A176				
Interest costs? (AC Sec. I67.118)	A177				
Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)	A178				
Depreciation? (AC Sec. D40.105)	A179				
Compensatory stock issuance plan? (AC Sec. C47)	A180				
Deferred compensation agreements? (AC Sec. C38)	A181				
Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)	A182				
Product financing arrangements? (AC Sec. D18.106-.107)	A183				
Operating leases and rent expenses of lessees? (AC Sec. L10.112)	A184				
Income taxes, computed under the early application of AC Sec. I25 (FAS No. 109), to include:					
The types of temporary differences that cause significant portions of a deferred tax liability or asset? (FAS No. 109.10-.15)	A185				
Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (FAS No. 109.45)	A186				
Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (FAS No. 109.46)	A187				
Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes? (FAS No. 109.48)	A188				
Other information concerning tax expense, benefits and the effect of income taxes? (FAS No. 109)	A189				
Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes? (AC Secs. I32 and I37 and Appendix E: I24.102-.104 and .548)	A190				
Discontinued operations? (AC Sec. I13)	A191				
Extraordinary and unusual items? (AC Sec. I17)	A192				
Earnings per share information? (AC Sec. E09)	A193				

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Statement of Cash Flows</b>					
Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	A194	_____	_____	_____	_____
Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.122)	A195	_____	_____	_____	_____
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	A196	_____	_____	_____	_____
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.126)	A197	_____	_____	_____	_____
Are noncash investing and financing activities disclosed? (AC Sec. C25.134)	A198	_____	_____	_____	_____
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?	A199	_____	_____	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity value of three months or less? Is the enterprise's policy for determining which items are treated as cash equivalents disclosed?	A200	_____	_____	_____	_____
Do the financial statements and notes not report an amount of cash flows per share?	A201	_____	_____	_____	_____
Do components of the financial statements appear to have been shown at "gross" and not "net" value? (AC Sec. C25.109-.111A)	A202	_____	_____	_____	_____
<b>Other</b>					
If the industry in which the client is operating is covered by an audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide? (AU Sec. 210.04)	A203	_____	_____	_____	_____

## II. GENERAL AUDIT PROCEDURES

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>In planning the audit engagement, did the auditor properly consider:</b>					
Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and government regulations, and technological changes? (AU Secs. 311.03 and 801.11)	A204	_____	_____	_____	_____
Matters affecting the entity's business, such as organization and types of products and services and contractual obligations? (AU Sec. 311.03-.04)	A205	_____	_____	_____	_____
Preliminary judgment about materiality levels? (AU Secs. 311.03 and 312.08)	A206	_____	_____	_____	_____
<b>Did the auditor:</b>					
Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts? (AU Secs. 312.12 and 316.05)	A207	_____	_____	_____	_____
Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12)	A208	_____	_____	_____	_____
Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU Sec. 316.05)	A209	_____	_____	_____	_____
Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures? (AU Sec. 329.01 and .06)	A210	_____	_____	_____	_____
<b>If the auditor succeeded a predecessor auditor, did the auditor:</b>					
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)	A211	_____	_____	_____	_____
Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.08)	A212	_____	_____	_____	_____
Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor's working papers? (AU Sec. 315.08)	A213	_____	_____	_____	_____
If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with professional standards? (AU Sec. 322)	A214	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor:					
Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Secs. 319.16 and 324.07-.10)	A215	_____	_____	_____	_____
Document the understanding of the internal control structure? (AU Sec. 319.26)	A216	_____	_____	_____	_____
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)	A217	_____	_____	_____	_____
Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)	A218	_____	_____	_____	_____
If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the internal controls of the accounting applications, if any, at the service organization? (AU Sec. 311.03)	A219	_____	_____	_____	_____
If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report obtained and appropriately considered, or test performed by the auditor at the service organization? (AU Secs. 319 and 324.14-.16)	A220	_____	_____	_____	_____
If the engagement included the use of the work (domestic or international) of another office, correspondent or affiliate:					
Do the instructions to the other office or firm appear adequate? (AU Sec. 311)	A221	_____	_____	_____	_____
Does it appear that the control exercised over the work of others through supervision and review was adequate? (AU Sec. 311)	A222	_____	_____	_____	_____
Was there appropriate follow-up of open matters? (AU Sec. 311)	A223	_____	_____	_____	_____
In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation? (AU Sec. 543.10)	A224	_____	_____	_____	_____
Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and applicable AICPA Industry Audit Guide)	A225	_____	_____	_____	_____
Was the audit program responsive to the needs of the engagement and the understanding of the internal control structure obtained during the planning process? (AU Sec. 319.02 and .05)	A226	_____	_____	_____	_____
Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)	A227	_____	_____	_____	_____
If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)	A228	_____	_____	_____	_____
Have all procedures called for in the audit program been signed? (AU Sec. 339)	A229	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):					
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and likely rate of deviations? (AU Sec. 350.31)	A230	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)	A231	_____	_____	_____	_____
Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures? (AU Sec. 350.40-.43)	A232	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)	A233	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A234	_____	_____	_____	_____
If statistical or nonstatistical sampling was used for substantive tests of details:					
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatements, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)	A235	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)	A236	_____	_____	_____	_____
Were the misstatement results of the sample projected to the items from which the sample was selected? (AU Sec. 350.26)	A237	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedure could not be performed? (AU Sec. 350.25)	A238	_____	_____	_____	_____
In the evaluation of whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatement results from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)	A239	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A240	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)	A241	_____	_____	_____	_____
Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)	A242	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Has the auditor evaluated the reasonableness of accounting estimates made by management? <sup>1</sup> (AU Sec. 342)	A243	_____	_____	_____	_____
Did the auditor obtain a timely and appropriate letter of representation from management? (AU Secs. 333.01 and 801.16)	A244	_____	_____	_____	_____
Did the auditor obtain timely and appropriate responses from the client's attorney concerning litigation, claims, and assessments? (AU Sec. 337.06)	A245	_____	_____	_____	_____
Have all questions, exceptions, or notes posed during the audit been followed up and resolved?	A246	_____	_____	_____	_____
Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)	A247	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.24-.29)	A248	_____	_____	_____	_____
Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 316.25)	A249	_____	_____	_____	_____
Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)	A250	_____	_____	_____	_____
When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:					
Follow up on illegal acts having a direct and material effect on the financial statements and on all other illegal acts in accordance with professional standards? (AU Secs. 316.24-.28 and 317.10)	A251	_____	_____	_____	_____
Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)	A252	_____	_____	_____	_____
Communicate directly with the audit committee if the illegal act involved senior management, document that communication and obtain assurance that all illegal acts which come to the auditor's attention are adequately communicated? (AU Sec. 317.17)	A253	_____	_____	_____	_____
Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? (AU Sec. 341.02)	A254	_____	_____	_____	_____

<sup>1</sup> The auditor has this responsibility under SAS No. 31, but has been given more specific guidance in SAS No. 57.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341)	A255	_____	_____	_____	_____
If the auditor's substantial doubt was alleviated, did the notes to the financial statements adequately disclose the principal conditions and events, the possible effects, and any mitigating factors, including management's plans? (AU Sec. 341)	A256	_____	_____	_____	_____
If the auditor's substantial doubt was not eliminated, did the auditor's report include an explanatory paragraph which adequately communicates the auditor's substantial doubt (e.g., includes the terms "substantial doubt" and "going concern")? (AU Sec. 341)	A257	_____	_____	_____	_____
During the performance of the audit:					
If there were reportable conditions identified were they communicated to the audit committee, management and others within the organization on a timely basis (If the communication was oral was it documented in the working papers)? (AU Sec. 325.09)	A258	_____	_____	_____	_____
Does the auditor's conclusions in the working papers regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Sec. 325)	A259	_____	_____	_____	_____
If a report was issued on reportable conditions did it: indicate the purpose of the audit, include the definition of reportable conditions and include the restriction on distribution? (AU Sec. 325.11)	A260	_____	_____	_____	_____
If a letter was issued that did not include reportable conditions did it omit an opinion that there were no reportable conditions? (AU Sec. 325.17)	A261	_____	_____	_____	_____
If the auditor was engaged to prepare or perform procedures on interim financial information filed with a specified regulatory agency and the auditor became aware of matters that caused the auditor to believe such information is probably materially misstated as a result of a departure from the application of generally accepted accounting principles did the auditor:					
Discuss the matter with the appropriate level of management? (AU Sec. 722.20)	A262	_____	_____	_____	_____
Timely inform the audit committee or others with equivalent authority and responsibility, if management did not respond appropriately or timely? (AU Sec. 722.21)	A263	_____	_____	_____	_____
Evaluate whether to resign or remain as the client's auditor, if the audit committee did not respond appropriately or timely? (AU Sec. 722.22)	A264	_____	_____	_____	_____
If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards, in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)	A265	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)	A266	_____	_____	_____	_____
Where there is a formal oversight committee, did the auditor:					
Ensure that appropriate matters were communicated to those with responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)	A267	_____	_____	_____	_____
If the communication was in writing, prepare a written report that included a statement that the communication was intended solely for the use of the audit committee or the board of directors and, if appropriate, management? (AU Sec. 380.03)	A268	_____	_____	_____	_____
If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers? (AU Sec. 380.03)	A269	_____	_____	_____	_____



## III. WORKING PAPER AREAS \*

**NOTE:** In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an "X" in the box below the name of the working paper area. [As indicated on page 5202, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" below the area.]

	<u>QUES.</u>	<u>N/A**</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Cash</b>					
<input type="checkbox"/> Not a key area.					
Were bank accounts confirmed and were reconciling items cleared by reference to subsequent statements obtained directly from the bank (or obtained from the client and appropriately tested)?	A301	_____	_____	_____	_____
Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?	A302	_____	_____	_____	_____
Do the working papers indicate that the following were considered:					
Restrictions on cash balances?	A303	_____	_____	_____	_____
Confirmation of bank credit arrangements such as compensating balances?	A304	_____	_____	_____	_____
Confirmation of liabilities and contingent liabilities to banks?	A305	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of cash appear adequate? (AU Sec. 319)	A306	_____	_____	_____	_____
<b>Receivables</b>					
<input type="checkbox"/> Not a key area.					
Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 331.24-.30)	A307	_____	_____	_____	_____
If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?	A308	_____	_____	_____	_____
If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed? (AU Sec. 330.32)	A309	_____	_____	_____	_____
Were significant notes receivable confirmed as of the balance sheet date?	A310	_____	_____	_____	_____

\* Complete only the sections for the key audit areas selected for review.

\*\* The N/A column should be used when the item either does not exist or is not material.

\*\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers? (AU Sec. 330.33)	A311	_____	_____	_____	_____
Was collateral (if any) for receivables examined with respect to existence, ownership and value?	A312	_____	_____	_____	_____
Were adequate tests of discounts and allowances made?	A313	_____	_____	_____	_____
Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered? (AU Sec. 312.29)	A314	_____	_____	_____	_____
Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?	A315	_____	_____	_____	_____
Was receivable work coordinated with the tests of revenue, including cut-off tests?	A316	_____	_____	_____	_____
Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?	A317	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of receivables appear adequate? (AU Sec. 319)	A318	_____	_____	_____	_____
<b>Inventories</b>					
<input type="checkbox"/> Not a key area.					
Where the physical inventory is taken at a date other than the balance sheet date (or where rotating procedures are used), do the working papers indicate that consideration was given to inventory transactions between the inventory date(s) and the balance sheet date? (AU Sec. 313.08-.09)	A319	_____	_____	_____	_____
Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with counts reflected in final inventory)? (AU Sec. 331.09)	A320	_____	_____	_____	_____
Were physical inventories observed at all locations where relatively large amounts are located?	A321	_____	_____	_____	_____
Where the physical inventory in the hands of others was not observed, were inventory confirmations received [i.e., inventory in public warehouses (AU Sec. 331.14), on consignment, etc.]?	A322	_____	_____	_____	_____
If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the physical inventory (or cycle counts) are properly reflected in the accounts?	A323	_____	_____	_____	_____
Do the working papers indicate that there were adequate tests of:					
The clerical accuracy of the inventory?	A324	_____	_____	_____	_____
Costing methods and substantiation of costs used in pricing all elements (raw materials, work in process, finished goods) of the inventory?	A325	_____	_____	_____	_____
Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?	A326	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Where LIFO is used, did the auditor consider whether the client's LIFO techniques are generally consistent with those in the AICPA's issues paper on LIFO?	A327	_____	_____	_____	_____
Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?	A328	_____	_____	_____	_____
Were inquiries concerning purchase and sales commitments made, including consideration as to any possible adverse effects?	A329	_____	_____	_____	_____
Were appropriate inventory cut-off tests performed?	A330	_____	_____	_____	_____
Where applicable, were analytic procedures employed to check overall valuation of inventories?	A331	_____	_____	_____	_____
Do the working papers indicate that steps were performed to determine if any inventory is pledged?	A332	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of inventory appear adequate? (AU Sec. 319)	A333	_____	_____	_____	_____
<b>Investments</b>					
<input type="checkbox"/> Not a key area.					
Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during the period, income, market value, etc., of investments?	A334	_____	_____	_____	_____
Were securities either examined or confirmed? (AU Sec. 332.04)	A335	_____	_____	_____	_____
Was the computation of realized gains and losses properly tested by the auditor?	A336	_____	_____	_____	_____
Do the working papers reflect consideration of the appropriateness of carrying values of securities and their classification?	A337	_____	_____	_____	_____
Were investigations of possible impairment of the carrying value of long-term investments made? (AU Sec. 332.03)	A338	_____	_____	_____	_____
Do the working papers reflect consideration that investments were pledged, restricted, or had limitations on their immediate use?	A339	_____	_____	_____	_____
For investments accounted for on the equity method, were financial statements and other information reviewed to support the amounts presented or the note disclosures made? (AU Sec. 332.07-.08 and .15)	A340	_____	_____	_____	_____
For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral)?	A341	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of investments appear adequate? (AU Sec. 319)	A342	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Prepaid Expenses, Intangible Assets, Deferred Charges, etc.</b>					
<input type="checkbox"/> Not a key area.					
Were adequate tests made for all material:					
Prepaid expenses?	A343	_____	_____	_____	_____
Intangible assets?	A344	_____	_____	_____	_____
Deferred charges?	A345	_____	_____	_____	_____
Other?	A346	_____	_____	_____	_____
Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?	A347	_____	_____	_____	_____
Were reviews made of the continuing value of goodwill and other intangible assets?	A348	_____	_____	_____	_____
If insurance policies were pledged as collateral or subjected to premium financing, did the auditor consider whether accounting for such loans was appropriate?	A349	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate? (AU Sec. 319)	A350	_____	_____	_____	_____
<b>Property, Plant and Equipment</b>					
<input type="checkbox"/> Not a key area.					
Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for:					
Property, plant and equipment?	A351	_____	_____	_____	_____
Accumulated depreciation?	A352	_____	_____	_____	_____
Do tests appear adequate and were proper conclusions drawn with respect to:					
Additions (by the examination of supporting documents and/or physical inspection)?	A353	_____	_____	_____	_____
Retirements, etc. (including examination of miscellaneous income, scrap sales)?	A354	_____	_____	_____	_____
The adequacy of current and accumulated provisions for depreciation and depletion?	A355	_____	_____	_____	_____
Status of idle facilities?	A356	_____	_____	_____	_____
Do the working papers indicate that the auditor considered the possibility that property was subject to liens?	A357	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate? (AU Sec. 319)	A358	_____	_____	_____	_____
<b>Liabilities</b>					
<input type="checkbox"/> Not a key area.					
Were accounts payable adequately tested for propriety?	A359	_____	_____	_____	_____
Was an adequate search performed for unrecorded liabilities at the balance sheet date?	A360	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was the payables work coordinated with the testing of the purchases cut-off?	A361	_____	_____	_____	_____
Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences or postretirement benefits), and to whether accrued expenses were reasonably stated?	A362	_____	_____	_____	_____
Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed or alternative procedures performed?	A363	_____	_____	_____	_____
Were procedures performed to verify whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rates?	A364	_____	_____	_____	_____
Is there evidence of testing of the company's compliance with covenants to debt obligations?	A365	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of liabilities appear adequate? (AU Sec. 319)	A366	_____	_____	_____	_____
<b>Deferred Credits</b>					
<input type="checkbox"/> Not a key area.					
Do the working papers indicate that:					
The basis of deferring income is reasonable and on a consistent basis from year to year?	A367	_____	_____	_____	_____
Deferrals have been established on a reasonable basis?	A368	_____	_____	_____	_____
<b>Income Taxes</b>					
<input type="checkbox"/> Not a key area.					
Were the current and deferred tax accrual accounts and related provisions analyzed and appropriate auditing procedures performed?	A369	_____	_____	_____	_____
Do the working papers contain evidence that, in determining the adequacy of the income tax accruals and provisions, appropriate consideration was given to possible adjustments required for:					
Tax positions taken by the client that might be challenged by the taxing authorities and/or other tax contingencies?	A370	_____	_____	_____	_____
Possible assessments, penalties or interest, including similar adjustments applicable to years not yet examined?	A371	_____	_____	_____	_____
Based upon the review of the financial statements and working papers and, if necessary, discussions with engagement personnel, does it appear as though substantive tax matters applicable to this engagement were given adequate consideration?	A372	_____	_____	_____	_____
<b>Commitments and Contingencies</b>					
<input type="checkbox"/> Not a key area.					
Do the working papers include indication of the following:					
Inspection of minutes of meetings of the stockholders, board of directors, and executive and other committees of the board?	A373	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?	A374	_____	_____	_____	_____
Accumulation and analysis of confirmation responses from banks and lawyers?	A375	_____	_____	_____	_____
Inquiry and discussion with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable? (AU Secs. 333 and 337.05)	A376	_____	_____	_____	_____
Other contingent liabilities (such as buy/sell agreements) for possible guarantees?	A377	_____	_____	_____	_____
Is there indication that procedures were performed to uncover the need for recording or disclosing events subsequent to the date of the financial statements? (AU Sec. 560.10-.12)	A378	_____	_____	_____	_____
Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)	A379	_____	_____	_____	_____
<b>Capital Accounts</b>					
<input type="checkbox"/> Not a key area.					
Were changes in capitalization checked to authorizations?	A380	_____	_____	_____	_____
Do the working papers indicate that there were adequate inquiries about stock options, warrants, rights, redemptions and conversion privileges?	A381	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of capital appear adequate? (AU Sec. 319)	A382	_____	_____	_____	_____
<b>Income and Expenses</b>					
<input type="checkbox"/> Not a key area.					
Were tests of payrolls, including account distribution, made, where appropriate?	A383	_____	_____	_____	_____
Concerning pension and profit sharing plans (including impact of ERISA), do tests made of the expenses and liabilities appear adequate? (AC Sec. P16)	A384	_____	_____	_____	_____
Were revenue and expenditures and/or expenses for the period compared to the budget and the preceding period and reviewed for reasonableness, and were significant variances and fluctuations explained? (AU Sec. 329)	A385	_____	_____	_____	_____
Was adequate consideration given to:					
The client's revenue recognition policy? (AC Sec. A10.105)	A386	_____	_____	_____	_____
Income recognition on transactions where the earnings process was not complete?	A387	_____	_____	_____	_____
Unusual sales transactions?	A388	_____	_____	_____	_____
Income recognition when the right of return exists? (AC Sec. R75.105-.109)	A389	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Based on the assessment of control risk, did the substantive tests (review, analysis, and testing) of revenue and expenditures/expenses appear adequate? (AU Sec. 319)	A390	_____	_____	_____	_____
<b>Other</b>					
Have leases been reviewed to determine that capital, sales, and direct financing leases have been properly accounted for?	A391	_____	_____	_____	_____
Were appropriate procedures applied to supplemental information? (AU Sec. 551.06 and .08)	A392	_____	_____	_____	_____
<b>Review of Interim Financial Information:</b>					
Were appropriate procedures performed? (AU Sec. 722.12-.19)	A393	_____	_____	_____	_____
If required by firm policy, was a checklist of the above procedures used?	A394	_____	_____	_____	_____
If the work of a specialist was used, did the auditor apply the guidance in professional standards? (AU Sec. 336.05-.12)	A395	_____	_____	_____	_____
Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (AU Sec. 334)	A396	_____	_____	_____	_____
<b>If consolidated statements are presented:</b>					
Have intercompany balances and transactions been eliminated? (AC Sec. C51.109)	A397	_____	_____	_____	_____
If the financial reporting periods of one or more subsidiaries differ from that of the parent, was recognition given to the effect of intervening events that materially affect financial position or the results of operations? (AC Sec. C51.107)	A398	_____	_____	_____	_____
Was appropriate consideration given to the carrying value of long-term contracts in relation to their contract prices, estimated costs to complete, and degree of completion?	A399	_____	_____	_____	_____
Was appropriate consideration given to the accounting for (including the disclosure of) futures, forwards, and standby contracts?	A400	_____	_____	_____	_____

## IV. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Independence (QC Sec. 10.07a)</b>					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered? (ET Sec. 101)	A501	_____	_____	_____	_____
Have personnel been appropriately advised as to the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	A502	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)	A503	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	A504	_____	_____	_____	_____
<b>Assigning Personnel to Engagements (QC Sec. 10.07b)</b>					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	A505	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)	A506	_____	_____	_____	_____
<b>Consultation (QC Sec. 10.07c)</b>					
Was there appropriate consultation and documentation:					
In situations specified by firm policy?	A507	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	A508	_____	_____	_____	_____
Were the firm's conclusions consistent with professional standards?	A509	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	A510	_____	_____	_____	_____
<b>Supervision (QC Sec. 10.07d)</b>					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)	A511	_____	_____	_____	_____
Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)	A512	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	A513	_____	_____	_____	_____
Does it appear that the hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	A514	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, <u>required by firm policy</u> for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	A515	_____	_____	_____	_____
Review of internal control structure:					
Manual system?	A516	_____	_____	_____	_____
EDP system?	A517	_____	_____	_____	_____
Audit work programs?	A518	_____	_____	_____	_____
Financial statement disclosures?	A519	_____	_____	_____	_____
Working papers and financial statement reviews?	A520	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	A521	_____	_____	_____	_____
Were the firm's guidelines for the form and content of audit working papers complied with?	A522	_____	_____	_____	_____
If used, were scientific audit tools (e.g., computer auditing, statistical sampling, etc.) properly evaluated by persons with training in these areas? (AU Sec. 311.10)	A523	_____	_____	_____	_____
If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy and was that review documented?	A524	_____	_____	_____	_____
<b>Advancement</b> (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	A525	_____	_____	_____	_____
<b>Acceptance and Continuance of Clients</b> (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	A526	_____	_____	_____	_____
<b>Professional Development</b> (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)	A527	_____	_____	_____	_____

[The next page is 5227.]

**V. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS**

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

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\* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

## On-Site Review Engagement Checklists

Page  
NumberQuestion  
NumberExplanatory CommentsDisposition  
of Comments

Page  
Number

Question  
Number

Explanatory Comments

---

Disposition  
of Comments

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Number

Question  
Number

Explanatory Comments

---

Disposition  
of Comments

## VI. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. *BE SPECIFIC.*

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards? (AU 390 and ET 202) YES \* \_\_\_\_\_ NO \_\_\_\_\_
  - The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified? (AU 561 and ET 203) YES \* \_\_\_\_\_ NO \_\_\_\_\_
  - The auditor's report was not appropriate in the circumstances? YES \* \_\_\_\_\_ NO \_\_\_\_\_
  - The documentation on this engagement does not support the firm's opinion on the financial statements? YES \_\_\_\_\_ NO \_\_\_\_\_
  - The firm did not comply with its policies and procedures on this engagement in all material respects? YES \* \_\_\_\_\_ NO \_\_\_\_\_
- \_\_\_\_\_

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\* If this question is answered "yes", see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting On Quality Reviews*.

# QRP Section 5300

## General Review Engagement Checklist

### ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_  
 Partner \_\_\_\_\_  
 Manager \_\_\_\_\_  
 Senior \_\_\_\_\_

Office \_\_\_\_\_  
 Date of Financial Statements\* \_\_\_\_\_  
 Date of Report \_\_\_\_\_  
 Date Report Released \_\_\_\_\_

The responsibility of this engagement involves reporting on the reviewed financial statements of an entity that is a (an):

- |   |   |
|---|---|
| <input type="checkbox"/> independent entity             | <input type="checkbox"/> subsidiary, division or branch |
| <input type="checkbox"/> consolidated or combined group | <input type="checkbox"/> other (explain)                |

The financial statements cover an (annual) (interim) reporting period and (do) (do not) include supplemental information.

Date that the fee for the prior year's engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total assets \$ \_\_\_\_\_  
 Equity \$ \_\_\_\_\_  
 Net sales \$ \_\_\_\_\_  
 Net income \$ \_\_\_\_\_

Major lines of business:

Complex or troublesome engagement areas:

Review hours on this engagement:

Partner \_\_\_\_\_  
 Manager (or equivalent) \_\_\_\_\_  
 Senior \_\_\_\_\_  
 Other \_\_\_\_\_  
 Total this office \_\_\_\_\_  
 Total budgeted \_\_\_\_\_

Date Engagement Review Performed \_\_\_\_\_  
 Reviewer \_\_\_\_\_

Date Checklist Reviewed  
 by Team Captain \_\_\_\_\_  
 Signature \_\_\_\_\_

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

## General Review Engagement Checklist

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NOTE: This checklist has been updated through SSARS No. 6, SFAS No. 109, and FASB Interpretation No. 38.

Explanation of References:

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AR	Reference to section number in <i>AICPA Professional Standards</i> (vol. 2)
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
FAS	Statement of Financial Accounting Standards
QC	Quality Control Standards <i>AICPA Professional Standards</i> (vol. 2)



## I. REPORT AND FINANCIAL STATEMENTS

**NOTE:** This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. Reviewers may wish to consult that checklist for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	<u>QUES.</u>	<u>N/A</u> *	<u>YES</u>	<u>NO</u>	<u>REF.</u> **
<b>Accountant's Report</b>					
Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.33)	R101	_____	_____	_____	_____
Does the report adequately disclose all required matters and does its language conform to that required by professional standards including appropriate language describing any modification from professional standards, if applicable? (AR Sec. 100.32-.41 or under the early application of the Omnibus Statement on Standards for Accounting and Review Services)	R102	_____	_____	_____	_____
If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Sec. 9100.41-.45)	R103	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)	R104	_____	_____	_____	_____
If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)	R105	_____	_____	_____	_____
Does each page of financial statements that have been reviewed include a reference to the accountant's report? (AR Sec. 100.34)	R106	_____	_____	_____	_____
<b>Financial Statements and Notes</b>					
<b>General</b>					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	R107	_____	_____	_____	_____
Do the financial statements appear to be free from material error? (AR Sec. 100.13)	R108	_____	_____	_____	_____
Is the presentation appropriate and disclosure adequate regarding:					
Significant accounting policies? (AC Sec. A 10.105-.108)	R109	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	R110	_____	_____	_____	_____
Comparative financial statements? (AC Sec. F43)	R111	_____	_____	_____	_____
Business combinations? (AC Sec. B50)	R112	_____	_____	_____	_____
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)	R113	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements? (AC Sec. C51.121)	R114	_____	_____	_____	_____
Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed? (AC Sec. F25.112)	R115	_____	_____	_____	_____
Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed? (FAS No. 107.10-.14)	R116	_____	_____	_____	_____
Are required disclosures made concerning related party transactions? (AC Sec. R36)	R117	_____	_____	_____	_____
Are required disclosures made regarding significant dependence on one or more major customers or suppliers? (AC Sec. S20.101-.103, .127 and .145)	R118	_____	_____	_____	_____
Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed? (AC Sec. F60)	R119	_____	_____	_____	_____
Are foreign operations and export sales adequately disclosed? (AC Sec. F65)	R120	_____	_____	_____	_____
Are nonmonetary transactions accounted for and disclosed? (AC Secs. N35 and C11)	R121	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies disclosed and/or accrued? (AC Sec. C59.104-.114)	R122	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	R123	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Secs. 560.03-.09 and 561)	R124	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern? (AU Sec. 341.10 and .11)	R125	_____	_____	_____	_____
Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)	R126	_____	_____	_____	_____
Are all other pension plans adequately disclosed? (AC Sec. P16)	R127	_____	_____	_____	_____
Is the required information on defined benefit post-retirement plans adequately disclosed? (AC Sec. P40.169)	R128	_____	_____	_____	_____
Are postretirement health care and life insurance benefits, under FAS No. 81 and FASB Technical Bulletin 87-1, properly disclosed? (AC Secs. P50.102-.103)	R129	_____	_____	_____	_____
If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De. 104-.109)	R130	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do the financial statements, where required, include appropriate disclosures of futures contracts? (AC Sec. F80)	R131	_____	_____	_____	_____
<b>Balance Sheet</b>					
Is the presentation appropriate and disclosure adequate regarding:					
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	R132	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	R133	_____	_____	_____	_____
Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)	R134	_____	_____	_____	_____
Marketable equity securities? (AC Sec. I89)	R135	_____	_____	_____	_____
Other marketable securities? (AC Sec. I89.103)	R136	_____	_____	_____	_____
Accounts and Notes Receivable:					
Unbilled receivables? (AC Sec. Co5.108)	R137	_____	_____	_____	_____
Loans and related origination fees? (AC Sec. L20.104-.106 and .120)	R138	_____	_____	_____	_____
Effect of interest rates which do not reflect market rates? (AC Sec. I69.109)	R139	_____	_____	_____	_____
Receivables related to troubled debt restructurings? (AC Sec. D22.136-.137 and .501-.505)	R140	_____	_____	_____	_____
Other receivables?	R141	_____	_____	_____	_____
Inventories? (AC Secs. B05.105 and I78)	R142	_____	_____	_____	_____
Investments? (AC Secs. I82.109-.110 and I89.101-.107)	R143	_____	_____	_____	_____
Property and equipment, including accounting for assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I13.108, I67 and I32)	R144	_____	_____	_____	_____
Sales-type, direct financing, and operating leases of lessors? (AC Secs. L10.119 and .143-.149)	R145	_____	_____	_____	_____
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges? (AC Secs. I60, Co2.106-.110, and FAS No. 109.43 and .44)	R146	_____	_____	_____	_____
Pledged assets? (AC Sec. C59.120)	R147	_____	_____	_____	_____
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	R148	_____	_____	_____	_____
Current liabilities? (AC Sec. B05.108-.109 and .118)	R149	_____	_____	_____	_____
Short-term liabilities expected to be refinanced? (AC Sec. B05.112-.117 and .138-.139)	R150	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Notes payable and other debt:					
Maturities and rates? (AC Sec. C32.105)	R151	_____	_____	_____	_____
Other terms and covenants? (AC Sec. C59.120)	R152	_____	_____	_____	_____
Effect of interest rates which do not reflect market rates? (AC Sec. I.69)	R153	_____	_____	_____	_____
Effect of troubled debt restructurings? (AC Sec. D22.121)	R154	_____	_____	_____	_____
Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)	R155	_____	_____	_____	_____
Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	R156	_____	_____	_____	_____
Capital leases of lessees? (AC Sec. L10.106 and .112)	R157	_____	_____	_____	_____
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue? (AC Secs. C44.104 and .108 and FAS No. 109.43 and .44)	R158	_____	_____	_____	_____
Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	R159	_____	_____	_____	_____
Stock option and stock purchase plans? (AC Sec. C47)	R160	_____	_____	_____	_____
Stock subscriptions receivable? (EITF 85-1)	R161	_____	_____	_____	_____
Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)	R162	_____	_____	_____	_____
Changes in stockholders' equity? (AC Secs. C08.102 and A35.103, .105 and .107)	R163	_____	_____	_____	_____
Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)	R164	_____	_____	_____	_____
<b>Income Statement</b>					
Are the important components of the income statement separately disclosed?	R165	_____	_____	_____	_____
Is the presentation appropriate and disclosure adequate regarding:					
Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions? (AC Secs. R10 and Co4.110 and .112)	R166	_____	_____	_____	_____
Gains and losses, realized and unrealized, from marketable equity securities? (AC Sec. I89.106 and .110)	R167	_____	_____	_____	_____
Income and income taxes on investments in securities accounted for on the equity method? (AC Sec. I82.109)	R168	_____	_____	_____	_____
Research and development costs? (AC Sec. R50)	R169	_____	_____	_____	_____
Computer software costs? (AC Sec. Co2.110-.111)	R170	_____	_____	_____	_____
Interest costs? (AC Sec. I67.118)	R171	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Discount or premium on notes receivable or payable? (AC Sec. 169.108-.109)	R172	_____	_____	_____	_____
Depreciation? (AC Sec. D40.105)	R173	_____	_____	_____	_____
Compensatory stock issuance plan? (AC Sec. C47)	R174	_____	_____	_____	_____
Deferred compensation agreements? (AC Sec. C38)	R175	_____	_____	_____	_____
Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)	R176	_____	_____	_____	_____
Product financing arrangements? (AC Sec. D18.106-.107)	R177	_____	_____	_____	_____
Operating leases and rent expense of lessees? (AC Sec. L10.112)	R178	_____	_____	_____	_____
Income taxes, computed under the early application of AC Sec. 125 (FAS No. 109) to include:					
The types of temporary differences that cause significant portions of a deferred tax liability or asset? (FAS No. 109.10-.15)	R179	_____	_____	_____	_____
Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (FAS No. 109.45)	R180	_____	_____	_____	_____
Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pretax income or loss from continuing operations? (FAS No. 109.46)	R181	_____	_____	_____	_____
Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes? (FAS No. 109.48)	R182	_____	_____	_____	_____
Other information concerning tax expense, benefits and the effect of income taxes? (FAS No. 109)	R183	_____	_____	_____	_____
Income taxes, computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes? (AC Secs. 132, 137 and Appendix E; 124.102-.104 and .548)	R184	_____	_____	_____	_____
Discontinued operations? (AC Sec. 113)	R185	_____	_____	_____	_____
Extraordinary and unusual items? (AC Sec. 117)	R186	_____	_____	_____	_____
<b>Statement of Cash Flows</b>					
Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	R187	_____	_____	_____	_____
Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.122)	R188	_____	_____	_____	_____
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	R189	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.126)	R190	_____	_____	_____	_____
Are noncash investing and financing activities disclosed? (AC Sec. C25.134)	R191	_____	_____	_____	_____
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.132)	R192	_____	_____	_____	_____
Do components of the financial statements appear to have been shown at "gross" and not "net" value? (AC Sec. C25.109-.111A)	R193	_____	_____	_____	_____
<b>Other</b>					
If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide?	R194	_____	_____	_____	_____
<b>Summary</b>					
Does it appear that disclosures in the financial statements are reasonably adequate?	R195	_____	_____	_____	_____

## II. GENERAL REVIEW PROCEDURES

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (Professional standards require the accountant to establish an understanding with the entity, preferably, though not required to be, in writing.) (AR Sec. 100.08)	R201	_____	_____	_____	_____
Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration preferably, though not required to be, in writing (e.g., proposed work program, manpower requirements, etc.)? (AR Sec. 100.24-.26)	R202	_____	_____	_____	_____
If the engagement was originally intended to be an audit, rather than a review of financial statements, did the accountant consider (AR Sec. 100.44-.49):					
The reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances?	R203	_____	_____	_____	_____
The additional audit effort required to complete the audit?	R204	_____	_____	_____	_____
The estimated additional cost to complete the audit?	R205	_____	_____	_____	_____
Did the accountant's inquiries and analytical procedures consist of the following (AR Sec. 100.27):					
Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them?	R206	_____	_____	_____	_____
Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements?	R207	_____	_____	_____	_____
Analytical procedures designed to identify relationships and individual items that appear to be unusual?	R208	_____	_____	_____	_____
Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements?	R209	_____	_____	_____	_____
Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles?	R210	_____	_____	_____	_____
Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees?	R211	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements?	R212	_____	_____	_____	_____
If the accountant became aware that information that came to the accountant's attention was incorrect, incomplete, or otherwise unsatisfactory, did the accountant perform additional procedures as deemed necessary to achieve limited assurance that there were no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles? (AR Sec. 100.29)	R213	_____	_____	_____	_____
Do the accountant's working papers adequately reflect (AR Sec. 100.30):					
The matters covered in inquiry and analytical procedures?	R214	_____	_____	_____	_____
Unusual matters that were considered during the performance of the review, including their disposition?	R215	_____	_____	_____	_____
If the accountant decided to obtain a representation letter from the owner, manager, or chief executive officer, does it appear to be appropriate in the circumstances? (Note: Under the early application of the Omnibus Statement on Standards for Accounting and Review Services, the accountant is required to obtain a representation letter.) (AR Sec. 100.31)	R216	_____	_____	_____	_____
If any circumstances were encountered by the accountant that precluded the accountant from performing inquiries and analytical procedures as deemed necessary (AR Sec. 100.36):					
Did the accountant consider whether these circumstances would have resulted in an incomplete review and therefore afford the accountant an inadequate basis for issuing a review report?	R217	_____	_____	_____	_____
Did the accountant consider whether these same circumstances would also preclude the accountant from issuing a compilation report on the entity's financial statements?	R218	_____	_____	_____	_____
Do such determinations by the accountant appear to be proper?	R219	_____	_____	_____	_____
Have all questions, exceptions or notes, posed during the work been followed up and resolved?	R220	_____	_____	_____	_____
If there is an indication that the accountant had become aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards, in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)	R221	_____	_____	_____	_____



## III. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Independence (QC Sec. 10.07a)</b>					
If anything has been noted which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered? (ET Sec. 101)	R301	_____	_____	_____	_____
Have personnel been appropriately informed as to the need to observe independence requirements with regard to this client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	R302	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to perform segments of the engagement? (AU Sec. 543.10)	R303	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior years services paid prior to issuance of the current year's report? (ET 191.103-.104)	R304	_____	_____	_____	_____
<b>Assigning Personnel to Engagements (QC Sec. 10.07b)</b>					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	R305	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided? (QC Sec. 90.12)	R306	_____	_____	_____	_____
<b>Consultation (QC Sec. 10.07c)</b>					
Was there appropriate consultation and documentation thereof:					
In situations specified by firm policy?	R307	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	R308	_____	_____	_____	_____
Were the firm's conclusions consistent with professional standards?	R309	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	R310	_____	_____	_____	_____
<b>Supervision (QC Sec. 10.07d)</b>					
Does it appear that engagement planning was appropriate? (QC Sec. 90.16)	R311	_____	_____	_____	_____
Did the partner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey approval or modifications to the engagement staff?	R312	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does it appear that involvement by the partner and manager was both adequate and appropriately timed to provide for any planning and supervision as the job progressed?	R313	_____	_____	_____	_____
Were forms, checklists, or questionnaires, if any, <u>required by firm policy</u> (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	R314	_____	_____	_____	_____
Work programs?	R315	_____	_____	_____	_____
Financial statement disclosures?	R316	_____	_____	_____	_____
Working paper preparation and reading of financial statements?	R317	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies applicable to a review?	R318	_____	_____	_____	_____
Were the firm's guidelines for the form and content of working papers for a review complied with?	R319	_____	_____	_____	_____
Was an appropriate review made of the working papers, report and the financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?	R320	_____	_____	_____	_____
<b>Advancement (QC Sec. 10.07g)</b>					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	R321	_____	_____	_____	_____
<b>Acceptance and Continuance of Clients (QC Sec. 10.07h)</b>					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	R322	_____	_____	_____	_____
<b>Professional Development (QC Sec. 10.07f)</b>					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.20)	R323	_____	_____	_____	_____

**IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS**

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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\* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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NOTE: Attach additional sheets if required.

**V. CONCLUSIONS**

**EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.**

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with Statements on Standards for Accounting and Review Services? (ET 202) YES\* \_\_\_\_\_ NO \_\_\_\_\_
  - The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified? (AR 300.04 and ET 203) YES\* \_\_\_\_\_ NO \_\_\_\_\_
  - The review report was not appropriate in the circumstances? YES\* \_\_\_\_\_ NO \_\_\_\_\_
  - The documentation on this engagement does not evidence compliance with professional standards? YES \_\_\_\_\_ NO \_\_\_\_\_
  - The firm did not comply with its policies and procedures on this engagement in all material respects? YES \_\_\_\_\_ NO \_\_\_\_\_
- \_\_\_\_\_

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\* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Quality Reviews*.

# QRP Section 5400

## General Compilation Engagement Checklist

### ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_  
 Partner \_\_\_\_\_  
 Manager \_\_\_\_\_

Office \_\_\_\_\_  
 Date of Financial Statements\* \_\_\_\_\_  
 Date of Report \_\_\_\_\_  
 Date Report Released \_\_\_\_\_

The responsibility of this engagement involves reporting on:

1. ☐ compiled balance sheet ☐ complete set of compiled financial statements  
☐ compiled income statement without statement of cash flows ☐ compiled financial statements
2. that (include) (omit) substantially all required disclosures and
3. that (include) (do not include) supplemental information.

The financial statements are for an entity that is a (an):

- |   |   |
|---|---|
| <input type="checkbox"/> independent entity             | <input type="checkbox"/> subsidiary, division or branch |
| <input type="checkbox"/> consolidated or combined group | <input type="checkbox"/> other (explain)                |

The financial statements cover an (annual) (interim) reporting period.

Date that the fee for the prior year's engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total assets \$ \_\_\_\_\_  
 Equity \$ \_\_\_\_\_  
 Net sales \$ \_\_\_\_\_  
 Net income \$ \_\_\_\_\_

Major lines of business:

Complex or troublesome engagement areas:

Compilation hours on this engagement:

Partner \_\_\_\_\_  
 Manager (or equivalent) \_\_\_\_\_  
 Senior \_\_\_\_\_  
 Other \_\_\_\_\_  
 Total this office \_\_\_\_\_  
 Total budgeted \_\_\_\_\_

Data Engagement Review Performed \_\_\_\_\_  
 Reviewer \_\_\_\_\_

Date Checklist Reviewed by \_\_\_\_\_  
 Team Captain \_\_\_\_\_  
 Signature \_\_\_\_\_

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\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

## General Compilation Engagement Checklist

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NOTE: This checklist has been updated through SSARS No. 6, SFAS No. 109, and FASB Interpretation No. 38.

**Explanation of References:**

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AR	Reference to section number in <i>AICPA Professional Standards</i> (Vol. 2)
AU	Reference to section number in <i>AICPA Professional Standards</i> (Vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (Vol. 2)
FAS	Statement of Financial Accounting Standards
QC	Quality Control Standards <i>AICPA Professional Standards</i> (Vol. 2)

## I. REPORT AND FINANCIAL STATEMENTS

**NOTE:** This is a highly summarized checklist taken from the AICPA financial reporting practice aid, *Disclosure Checklists*. Reviewers may wish to consult that checklist for detailed information about the requirements of professional standards and for citations thereto. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement. **For all engagements which omit substantially all disclosures, Appendix A should be completed in lieu of Section I.**

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Accountant's Report</b>					
Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)	C101	_____	_____	_____	_____
Does the report adequately disclose all required matters and does its language conform to that required by professional standards including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.14-.18, .39-.41 or under the early application of the Omnibus Statement on Standards for Accounting and Review Services)	C102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)	C103	_____	_____	_____	_____
If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and 9100.41-.45)	C104	_____	_____	_____	_____
If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)	C105	_____	_____	_____	_____
Does each page of financial statements that have been compiled include a reference to the accountant's report? (AR Sec. 100.16)	C106	_____	_____	_____	_____
<b>Financial Statements and Notes ***</b>					
<b>General</b>					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	C107	_____	_____	_____	_____
Do the financial statements appear to be free from material error? (AR Sec. 100.13)	C108	_____	_____	_____	_____
Is the presentation appropriate and disclosures adequate regarding:					
Significant accounting policies? (AC Sec. A10.105-.108)	C109	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	C110	_____	_____	_____	_____
Comparative financial statements? (AC Sec. F43)	C111	_____	_____	_____	_____
Business combinations? (AC Sec. B50)	C112	_____	_____	_____	_____
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)	C113	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

\*\*\* Certain questions contained herein will not be applicable for compiled financial statements which omit substantially all disclosures and therefore should be answered accordingly.



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements? (AC Sec. C51.121)	C114	_____	_____	_____	_____
Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed? (AC Sec. F25.112)	C115	_____	_____	_____	_____
Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed? (FAS No. 107.10-.14)	C116	_____	_____	_____	_____
Are required disclosures made concerning related party transactions? (AC Sec. R36)	C117	_____	_____	_____	_____
Are required disclosures made regarding significant dependence on one or more major customers or suppliers? (AC Sec. S20.101-.103, .127 and .145)	C118	_____	_____	_____	_____
Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed? (AC Sec. F60)	C119	_____	_____	_____	_____
Are foreign operations and export sales adequately disclosed? (AC Sec. F65)	C120	_____	_____	_____	_____
Are nonmonetary transactions accounted for and disclosed? (AC Secs. N35 and C11)	C121	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies disclosed and/or accrued? (AC Sec. C59.104-.114)	C122	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	C123	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59. 105 and .112 and AU Secs. 560.03-.09 and 561)	C124	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern? (AU Sec. 341.10-.11)	C125	_____	_____	_____	_____
Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)	C126	_____	_____	_____	_____
Are all other pension plans adequately disclosed? (AC Sec. P16)	C127	_____	_____	_____	_____
Is the required information on defined benefit post-retirement plans adequately disclosed? (AC Sec. P40.169)	C128	_____	_____	_____	_____
Are postretirement health care and life insurance benefits under FAS No. 81 and FASB Technical Bulletin 87-1, properly disclosed? (AC Sec. P50.102-.103)	C129	_____	_____	_____	_____
If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De4.105-.109)	C130	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do the financial statements, where required, include appropriate disclosures of futures contracts? (AC Sec. F80)	C131	_____	_____	_____	_____
<b>Balance Sheet</b>					
Is the presentation appropriate and disclosure adequate regarding:					
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	C132	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	C133	_____	_____	_____	_____
Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)	C134	_____	_____	_____	_____
Marketable equity securities? (AC Sec. I89)	C135	_____	_____	_____	_____
Other marketable securities? (AC Sec. I89.103)	C136	_____	_____	_____	_____
Accounts and Notes Receivable:					
Unbilled receivables? (AC Sec. Co5.108)	C137	_____	_____	_____	_____
Loans and related origination fees? (AC Sec. L20.104-.106 and .120)	C138	_____	_____	_____	_____
Effect of interest rates which do not reflect market rates? (AC Sec. I69.109)	C139	_____	_____	_____	_____
Receivables related to troubled debt restructurings? (AC Sec. D22.136-.137 and .501-.505)	C140	_____	_____	_____	_____
Other receivables?	C141	_____	_____	_____	_____
Inventories? (AC Secs. B05.105 and I78)	C142	_____	_____	_____	_____
Investments? (AC Secs. I82.109-.110 and I89.101-.107)	C143	_____	_____	_____	_____
Property and equipment, including accounting for assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I13.108, I67 and I32)	C144	_____	_____	_____	_____
Sales-type, direct financing, and operating leases of lessors? (AC Sec. 10.119 and .143-.149)	C145	_____	_____	_____	_____
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges? (AC Secs. I60, Co2.106-.110, and FAS No. 109.43-.44)	C146	_____	_____	_____	_____
Pledged assets? (AC Sec. C59.120)	C147	_____	_____	_____	_____
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	C148	_____	_____	_____	_____
Current liabilities? (AC Sec. B05.108-.109 and .118)	C149	_____	_____	_____	_____
Short-term liabilities expected to be refinanced? (AC Sec. B05.112-.117 and .138-.139)	C150	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Notes payable and other debt:</b>					
Maturities and rates? (AC Sec. C32.105)	C151	_____	_____	_____	_____
Other terms and covenants? (AC Sec. C59.120)	C152	_____	_____	_____	_____
Effect of interest rates which do not reflect market rates? (AC Sec. I69)	C153	_____	_____	_____	_____
Effect of troubled debt restructurings? (AC Sec. D22.121)	C154	_____	_____	_____	_____
Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)	C155	_____	_____	_____	_____
Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	C156	_____	_____	_____	_____
Capital leases of lessees? (AC Secs. L10.106 and .112)	C157	_____	_____	_____	_____
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, and special termination benefits to employees and deferred revenue? (AC Sec. C44.104 and .108 and FAS No. 109.43 and .44)	C158	_____	_____	_____	_____
Capital stock (number of shares authorized, issued, and outstanding, par or stated value per share, rights and preferences of various classes)?	C159	_____	_____	_____	_____
Stock option and stock purchase plans? (AC Sec. C47)	C160	_____	_____	_____	_____
Stock subscriptions receivable? (EITF 85-1)	C161	_____	_____	_____	_____
Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. R70.103 and C59.120)	C162	_____	_____	_____	_____
Changes in stockholders' equity? (AC Secs. Co8.112 and A35.103, .105 and .107)	C163	_____	_____	_____	_____
Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)	C164	_____	_____	_____	_____
<b>Income Statement</b>					
Are the important components of the income statement separately disclosed?	C165	_____	_____	_____	_____
<b>Is the presentation appropriate and disclosure adequate regarding:</b>					
Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions? (AC Secs. R10 and Co4.110 and .112)	C166	_____	_____	_____	_____
Gains and losses, realized and unrealized from marketable equity securities? (AC Sec. I89.106 and .110)	C167	_____	_____	_____	_____
Income and income taxes on investments in securities accounted for on the equity method? (AC Sec. I82.109)	C168	_____	_____	_____	_____
Research and development costs? (AC Sec. R50)	C169	_____	_____	_____	_____
Computer software costs? (AC Sec. Co2.110-.111)	C170	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Interest costs? (AC Sec. I67.118)	C171				
Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)	C172				
Depreciation? (AC Sec. D40.105)	C173				
Compensatory stock issuance plan? (AC Sec. C47)	C174				
Deferred compensation agreements? (AC Sec. C38)	C175				
Sales transactions in which the buyer has the right to return the product? (AC Sec. R75.107-.109)	C176				
Product financing arrangements? (AC Sec. D18.106-.107)	C177				
Operating leases and rent expense of lessees? (AC Sec. L10.112)	C178				
Income taxes, computed under the early application of AC Sec. I25 (FASB No. 109), to include:					
The types of temporary differences that cause significant portions of a deferred tax liability or asset? (FAS No. 109.10-.15)	C179				
Significant components of income tax expense, including the current tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (FAS No. 109.45)	C180				
Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations? (FAS No. 109.46)	C181				
Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes? (FAS No. 109.48)	C182				
Other information concerning tax expenses, benefits and the effect of income taxes. (FAS No. 109)	C183				
Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes? (AC Secs. I32, I37 and Appendix E: I24.102-.104 and .548)	C184				
Discontinued operations? (AC Sec. I13)	C185				
Extraordinary and unusual items? (AC Sec. I17)	C186				
<b>Statement of Cash Flows</b>					
Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	C187				
Does it report cash provided or used by investing, financing, and operating activities? (AC Sec. C25.112-.122)	C188				

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	C189	_____	_____	_____	_____
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.124)	C190	_____	_____	_____	_____
Are noncash investing and financing activities disclosed? (AC Sec. C25.134)	C191	_____	_____	_____	_____
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.132)	C192	_____	_____	_____	_____
Do components of the financial statements appear to have been shown at "gross" and not "net" value? (AC Sec. C25.109-.111A)	C193	_____	_____	_____	_____
<b>Other</b>					
If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide?	C194	_____	_____	_____	_____
<b>Summary</b>					
Does it appear that disclosures in the financial statements are reasonably adequate?	C195	_____	_____	_____	_____

## II. GENERAL PROCEDURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (professional standards require the accountant to establish an understanding with the entity, preferably, though not required to be, in writing) (AR Sec. 100.08)	C201	_____	_____	_____	_____
Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration preferably, though not required to be, in writing (e.g., proposed work program, manpower requirements, etc.)? (AR Sec. 100.10-.12)	C202	_____	_____	_____	_____
If the engagement was originally intended to be an audit or review, rather than a compilation, did the accountant consider (AR Sec. 100.45):					
The reason given for the client's request, particularly the implications of a restriction on the scope of the audit or review, whether imposed by the client or by circumstances?	C203	_____	_____	_____	_____
The additional effort required to complete the audit or review?	C204	_____	_____	_____	_____
The estimated additional cost to complete the audit or review?	C205	_____	_____	_____	_____
Is there an indication, in accordance with firm policy, that the accountant read the compiled financial statements and considered whether such financial statements appeared to be appropriate in form and free from obvious material errors? (AR Sec. 100.13)	C206	_____	_____	_____	_____
If the accountant became aware that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling financial statements, did the accountant obtain additional or revised information? (AR Sec. 100.12)	C207	_____	_____	_____	_____
Have all questions, exceptions or notes, posed during the work been followed up and resolved?	C208	_____	_____	_____	_____
If the accountant became aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)	C209	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

## III. FUNCTIONAL AREAS

	QUES.	N/A*	YES	NO	REF.**
<b>Independence (QC Sec. 10.07a)</b>					
If anything has been noted which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered? If the accountant was not independent, was the report appropriately modified? (ET Sec. 101)	C301	_____	_____	_____	_____
Have personnel been appropriately advised about the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	C302	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior years services paid prior to issuance of the current years report? (ET 191.103-.104)	C303	_____	_____	_____	_____
<b>Assigning Personnel to Engagements</b> (These steps may not be necessary for recurring compilation engagements with no unusual complexity.) (QC Sec. 10.07b)					
Were scheduling and staffing requirements identified on a timely basis and approved by the appropriate personnel? (QC Sec. 90.12)	C304	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided? (QC Sec. 90.12)	C305	_____	_____	_____	_____
<b>Consultation (QC Sec. 10.07c)</b>					
Was there appropriate consultation and documentation thereof:					
In situations specified by firm policy?	C306	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	C307	_____	_____	_____	_____
Were the firm's conclusions consistent with professional standards?	C308	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	C309	_____	_____	_____	_____
<b>Supervision (QC Sec. 10.07d)</b>					
Does it appear that engagement planning was appropriate? (QC Sec. 90.16)	C310	_____	_____	_____	_____
Were forms, checklists, or questionnaires, if any, <u>required by firm policy</u> (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklists?	C311	_____	_____	_____	_____
Work programs?	C312	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Financial statement disclosures?	C313	_____	_____	_____	_____
Working paper preparation and reading of financial statements?	C314	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies for compilation engagements?	C315	_____	_____	_____	_____
Were the firm's guidelines for the form and content of working papers complied with?	C316	_____	_____	_____	_____
Was an appropriate review made of the working papers, report and the financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?	C317	_____	_____	_____	_____
<b>Advancement</b> (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	C318	_____	_____	_____	_____
<b>Acceptance and Continuance of Clients</b> (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	C319	_____	_____	_____	_____
<b>Professional Development</b> (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.20)	C320	_____	_____	_____	_____



**IV. APPENDIX A—QUESTIONS FOR USE ON COMPILATION ENGAGEMENTS THAT OMIT SUBSTANTIALLY ALL DISCLOSURES**

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Accountant's Report</b>					
Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)	C101	_____	_____	_____	_____
Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.14-.17, .19-.21, and .39-.41)	C102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)	C103	_____	_____	_____	_____
If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and 9100.41-.45)	C104	_____	_____	_____	_____
If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)	C105	_____	_____	_____	_____
Does each page of financial statements that have been compiled include a reference to the accountants' report? (AR Sec. 100.16)	C106	_____	_____	_____	_____
<b>Financial Statements *</b>					
<b>General</b>					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	C107	_____	_____	_____	_____
Do the financial statements appear to be free from material error? (AR Sec. 100.13)	C108	_____	_____	_____	_____
<b>Balance Sheet</b>					
Is the presentation appropriate regarding segregation of assets and liabilities into current and noncurrent classifications? (AC Sec. B05)	C132	_____	_____	_____	_____
<b>Income Statement</b>					
Are the important components of the income statement separately stated?	C165	_____	_____	_____	_____
Is the presentation appropriate regarding:					
(a) Gains and losses, realized and unrealized, from marketable equity securities? (AC Sec. I89.106 and .110)	C167	_____	_____	_____	_____
(b) Income and income taxes on investments in securities accounted for on the equity method? (AC Sec. I82.109)	C168	_____	_____	_____	_____
(c) Income taxes, computed if applicable or a GAAP departure discussed in the report. (AC Secs. I32, I37 and Appendix E: I24.102-.104 and .548 or FAS No. 109)	C184	_____	_____	_____	_____
(d) Discontinued operations? (AC Sec. I13)	C185	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "No" answers must be explained on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
(e) Extraordinary and unusual items? (AC Sec. 117)	C186	_____	_____	_____	_____
<b>Statement of Cash Flows</b>					
Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	C187	_____	_____	_____	_____
Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.122)	C188	_____	_____	_____	_____
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	C189	_____	_____	_____	_____
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.126)	C190	_____	_____	_____	_____
Do components of the financial statements appear to have been shown at "gross" not "net" value? (AC Sec. C25.109-.111A)	C193	_____	_____	_____	_____
<b>Other</b>					
If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format and statements consistent with the guide?	C194	_____	_____	_____	_____

**V. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS**

The following pages are provided for your comments on all "no" answers on which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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\* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the manner is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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NOTE: Attach additional sheets if required.

## VL CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with Statements on Standards for Accounting and Review Services? (ET 202) YES\* \_\_\_\_\_ NO \_\_\_\_\_
  - The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the compilation report was not appropriately modified? (AR 300.04 and ET 203) YES\* \_\_\_\_\_ NO \_\_\_\_\_
  - The compilation report was not appropriate in the circumstances? YES\* \_\_\_\_\_ NO \_\_\_\_\_
  - The documentation on this engagement does not evidence compliance with professional standards? YES \_\_\_\_\_ NO \_\_\_\_\_
  - The firm did not comply with its policies and procedures on this engagement in all material respects? YES \_\_\_\_\_ NO \_\_\_\_\_
- \_\_\_\_\_

\* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Quality Reviews*.

# QRP Section 5500

## Governmental Audit Engagement Checklist

### Instructions for Use of Governmental Audit Engagement Checklist

This checklist was developed for use by reviewers of audits of state and local governments, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the quality review program.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of state and local governmental units. This checklist can be used in reviewing the audit of the general purpose financial statements, the comprehensive annual financial report, or component unit financial statements. The reviewer, however, should recognize that this checklist does not address certain items contained in the comprehensive annual financial report, such as the introductory section and nonfinancial statistical information.

The questions have been derived principally from the pronouncements of the Auditing Standards Board, the Governmental Accounting Standards Board and the U.S. General Accounting Office's *Government Auditing Standards*, the AICPA *Audit and Accounting Guide Audits of State and Local Governmental Units* (Fifth edition), SOP 90-9—*The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act*, SOP 92-7—*Audits of State and Local Governmental Entities Receiving Federal Financial Assistance* and SAS No. 68—*Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*.

This checklist contains Appendix A, which is devoted solely to the unique requirements of *Government Auditing Standards*. This checklist also contains Appendix B devoted solely to the special requirements of the Single Audit Act of 1984 (the Single Audit Act) and is based on the requirements established in the Office of Management and Budget's Circular No. A-128 (OMB A-128). Appendix A should always be completed when Appendix B is completed because the Single Audit Act requires that the audit be conducted in accordance with *Government Auditing Standards*.

To assist the reviewer in summarizing "no" answers in the *Summary Audit Engagement Checklist*, a column has been added containing sequential numbers referring to each question. Question numbers prefixed with the letter "A," such as "A101," refer to questions so numbered in the *General Audit Engagement Checklist*. Question numbers prefixed with the letter "G," such as "G101," refer to questions on matters unique to governmental entities. Reviewers should summarize the "no" answers of the "A" prefixed questions with those drawn from the *General Audit Engagement Checklist* in the *Summary Audit Engagements Checklist*. Reviewers should summarize the "G" prefixed questions in the appropriate appendix at the end of each section in the *Summary Checklist*.

Reviewers may adapt this checklist to fit specific engagements. If a not-for-profit entity is required to submit reports prepared in accordance with OMB Circular A-133, the reviewer should complete the *Checklists for Review of Audit Engagements of Not-for-Profit Organizations*. In addition, certain entities which are neither governmental nor not-for-profit organizations may have to submit a report prepared in accordance with either the Single Audit Act or A-133. In reviewing those engagements, reviewers should use either Appendices A and B of this checklist or Section III of the not-for-profit checklists respectively.

Because of the financial assistance that HUD projects receive, the HUD auditor must be fully aware of and comply with *Government Auditing Standards* (1988 revision) referred to as the "Yellow Book." These standards, which have been issued by the Comptroller General of the United States, became effective for HUD audits with fiscal

years beginning on or after January 1, 1989. Reviewers of engagements should use the general audit checklist and Appendix A of this checklist when reviewing HUD audits, if applicable, and SOP 90-4.

**Explanation of References:**

AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
ACNO	AICPA Audit and Accounting Guide <i>Audits of Certain Nonprofit Organizations</i>
ASLGU	AICPA Audit and Accounting Guide <i>Audits of State and Local Governmental Units</i>
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
GA	Generally Accepted Accounting Practice
GAO	<i>Government Auditing Standards</i> (1988) Revision, United States General Accounting Office
GASB	<i>Codification of Governmental Accounting and Financial Reporting Standards</i> (as of May 31, 1990)
SOP	AICPA Statement of Position
QC	Quality Control Standards <i>AICPA Professional Standards</i> (vol. 2)

## ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_  
 Partner \_\_\_\_\_ Date of Financial Statements \* \_\_\_\_\_  
 Manager \_\_\_\_\_ Date of Report \_\_\_\_\_  
 Concurring Reviewer \*\* \_\_\_\_\_ Date Report Released \_\_\_\_\_

The responsibility of this engagement involves reporting on:

- |   |   |
|---|---|
| <input type="checkbox"/> Comprehensive Annual Financial Report (CAFR) | <input type="checkbox"/> Special Reports  |
| <input type="checkbox"/> General Purpose Financial Statements (GPFS)  | <input type="checkbox"/> Other (e.g., Program Specific Audit Requirement)                   |
| <input type="checkbox"/> Component Unit Financial Report (CUFR)       | <input type="checkbox"/> Internal Control and Compliance (pursuant to the Single Audit Act) |
| <input type="checkbox"/> Component Unit Financial Statements (CUFS)   |   |

Was the work performed at the request of another office? Yes\_\_\_ No\_\_\_

Date that the fee for the prior year's engagement was collected \_\_\_\_\_

Key data reported on by this office for this engagement:

Total combined governmental fund type revenues (Memorandum total) ....	\$ _____
Total combined proprietary fund type revenues (Memorandum total) .....	\$ _____
Total combined assets (Memorandum total) .....	\$ _____
Total amount of federal assistance received *** .....	\$ _____

General description of audited entity

Complex or troublesome audit areas:

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner .....	_____	_____	_____	_____
Manager (or equivalent) .....	_____	_____	_____	_____
Senior .....	_____	_____	_____	_____
Concurring Reviewer ** .....	_____			
Other .....	_____			
Total this office .....	=====			
Total budgeted .....	_____			

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

\*\* Not applicable unless required by firm policy.

\*\*\* This amount should include "pass through" assistance received indirectly from another state or local government.



**LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER**

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, and IV should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Date Engagement Review Performed \_\_\_\_\_

Reviewer \_\_\_\_\_

Date Checklist Reviewed  
by Team Captain \_\_\_\_\_

Signature \_\_\_\_\_

## Checklist for Review of Audit Engagements of State or Local Governmental Entities

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NOTE: This checklist has been updated through SAS No. 71, SFAS No. 109, FASB Interpretation No. 38, GASBS No. 15, and the GAO's *Government Auditing Standards*. (1988 Revision)

The requirements of GASB No. 11 are effective for financial statements covering periods beginning after June 15, 1994. Early application is not permitted because of the need for simultaneous implementation with certain other GASB pronouncements.

## I. REPORT AND FINANCIAL STATEMENTS

**NOTE:** This checklist is derived from the pronouncements of the Governmental Accounting Standards Board (GASB), the U.S. General Accounting Office (GAO) and the AICPA. For detailed information concerning these requirements, the reviewer may wish to consult the authoritative literature of the above noted organizations as well as the AICPA financial reporting aid, Disclosure Checklists for Audits of State and Local Governmental Units. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Auditor's Reports</b>					
Does (do) the auditor's report(s) on the general purpose or component unit financial statements include all required matters concerning the financial position and results of financial operations of the governmental unit and cash flows of proprietary and nonexpendable funds? (ASL GU, Ch. 18 and SOP 89-6)	G101	_____	_____	_____	_____
Is the report dated in conformity with the requirements of professional standards? (AU Secs. 504.15-.17, 508.08, 508.74, .82 and 530)	A101	_____	_____	_____	_____
Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards? (AU Secs. 508.08-.10 and 623)	A102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented?	A103	_____	_____	_____	_____
If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)	A104	_____	_____	_____	_____
If supplemental information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)	A105	_____	_____	_____	_____
For engagements subject to <i>Government Auditing Standards</i> , has the reviewer completed Appendix A?		_____	_____		
For engagements subject to the Single Audit Act, has the reviewer completed Appendix B?		_____	_____		
<b>Financial Statements and Notes</b>					
<b>General</b>					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	A112	_____	_____	_____	_____
Are the following general purpose or component unit financial statements presented:					
Combined balance sheet—all fund types and account groups? (GASB Sec. 2200.105b.(2)(a))	G102	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	QUES.	N/A	YES	NO	REF.
Combined statement of revenues, expenditures, and changes in fund balances—all governmental fund types and expendable trust funds? (GASB Sec. 2200.105b(2)(b))	G103	_____	_____	_____	_____
Combined statement of revenues, expenditures, and changes in fund balances—budget and actual—general and special revenue fund types (and similar governmental fund types for which annual budgets have been legally adopted)? (GASB Sec. 2200.105b.(2)(c))	G104	_____	_____	_____	_____
Combined statement of revenues, expenses, and changes in retained earnings (or equity)—all proprietary fund types and similar trust funds? (GASB Sec. 2200.105b.(2)(d))	G105	_____	_____	_____	_____
Combined statement of cash flows—all proprietary fund types and nonexpendable trust funds? (GASB Sec. 2200.105b.(2)(e))	G106	_____	_____	_____	_____
Do the combined financial statements contain all funds and account groups that comprise the reporting entity, as defined in the notes? (GASB Sec. 2100 and GASB No. 14 <sup>1</sup> )	G107	_____	_____	_____	_____
If totals by account are presented in the general purpose financial statements, are the totals noted as memorandum only? (GASB Sec. 2200.113)	G108	_____	_____	_____	_____
If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in conformity with generally accepted accounting principles? (AU Sec. 508.74)	G109	_____	_____	_____	_____
Do interfund receivables equal interfund payables or are the differences explained in the notes? (GA)	G110	_____	_____	_____	_____
Are transfers to other funds recorded either as residual equity or operating transfers, as appropriate? (GASB Sec. 1800.106)	G111	_____	_____	_____	_____
Are special assessment receivables offset by deferred revenue? (GASB Sec. S40.115)	G112	_____	_____	_____	_____
Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectible receivables? (GASB Sec. P70 and S10)	G113	_____	_____	_____	_____
If separate financial statements of a component unit are issued, is the relationship of the component unit to the reporting or oversight entity disclosed? (GASB Sec. 2600.109 and GASB No. 14, par. 65 <sup>1</sup> )	G114	_____	_____	_____	_____
If a general fund is presented:					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G115	_____	_____	_____	_____
Are significant sources of general fund revenues disclosed? (GASB Sec. 1800.114)	G116	_____	_____	_____	_____

<sup>1</sup> GASB No. 14 is effective for fiscal years beginning after December 15, 1992.

	QUES.	N/A	YES	NO	REF.
Are expenditures classified by function? (GASB Sec. 1800.115-.116)	G117	_____	_____	_____	_____
<b>If special revenue funds are presented:</b>					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G118	_____	_____	_____	_____
Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-.120)	G119	_____	_____	_____	_____
<b>If debt service funds are presented:</b>					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G120	_____	_____	_____	_____
Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-.120)	G121	_____	_____	_____	_____
<b>If capital project funds are presented:</b>					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G122	_____	_____	_____	_____
Do the statements disclose the significant revenues and expenditures? (GASB Sec. 1800.114-.120)	G123	_____	_____	_____	_____
<b>If enterprise funds are presented:</b>					
Are the statements prepared on the accrual basis? (GASB Sec. 1600.125)	G124	_____	_____	_____	_____
Is the enterprise fund's liability for general obligation and special assessment debt, if any, included in the enterprise fund's financial statements? (GASB Sec. S40.123)	G125	_____	_____	_____	_____
Are the restricted assets, liabilities payable from restricted assets, and a portion of retained earnings required to be segregated for debt service separately disclosed? (ASL GU, Ch.11, par. 27)	G126	_____	_____	_____	_____
Are operating and nonoperating revenues and expenses separately classified? (GASB Sec. 1800.121)	G127	_____	_____	_____	_____
Are property, plant and equipment properly reported on the balance sheet? (GASB Secs. 1300.102b and 1400.102-.103)	G128	_____	_____	_____	_____
<b>If internal service funds are presented:</b>					
Are the statements prepared on the accrual basis? (GASB Sec. 1600.125)	G129	_____	_____	_____	_____
Do the financial statements present the net billings to other funds as revenues and the related costs as expenses? (GASB Sec. 1800.102)	G130	_____	_____	_____	_____
Are long-term advances segregated from current amounts payable to other funds? (GASB Sec. 1800.106)	G131	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Are property, plant and equipment properly reported on the balance sheet? (GASB Secs. 1300.102b and 1400.102-.103)	G132	_____	_____	_____	_____
If nonexpendable and/or pension funds are presented:					
Are the statements prepared on the accrual basis? (GASB Sec. 1600—Statement of Principle-Accrual Basis in Governmental Accounting)	G133	_____	_____	_____	_____
Are the principal and income portions of trust fund equity classified in accordance with the trust document? (GA)	G134	_____	_____	_____	_____
If agency funds are presented:					
Are the balance sheets prepared on the modified accrual basis? (GASB Sec. 1600.105)	G135	_____	_____	_____	_____
If expendable trust funds are presented:					
Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)	G136	_____	_____	_____	_____
Do the financial statements disclose the significant revenues and expenditures of each fund? (GASB Sec. 1800.114-.120)	G137	_____	_____	_____	_____
If a general fixed assets account group is presented:					
Are land, buildings, equipment, and construction-in-progress separately classified? (ASL GU, Ch. 9, par. 22)	G138	_____	_____	_____	_____
Where general fixed assets are depreciated, does the statement show the accumulated depreciation? (GASB Sec. 1400.118)	G139	_____	_____	_____	_____
If a general long-term debt account group is presented:					
Are general obligation term bonds and serial bonds separately disclosed? (GASB Sec. 1500.105)	G140	_____	_____	_____	_____
Are other long-term liabilities (accrued vacation, leases, workers' compensation, etc.) separately disclosed? (GASB Sec. 1500.111-.123)	G141	_____	_____	_____	_____
Are the amounts reported as amounts available for long-term debt and amounts to be provided properly stated?	G142	_____	_____	_____	_____
Questions G143 through G170 should be answered only if the combining or individual fund financial statements are presented as primary financial statements. The reviewer should evaluate whether the fund statements were complete in presentation for each fund or account group. (GASB Sec. 2200)					
Are the following financial statements presented, if necessary:					
General fund:					
Balance sheet?	G143	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balance?	G144	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Statement of revenues, expenditures and changes in fund balance—budget vs. actual?	G145				
Special revenue funds:					
Balance sheet?	G146				
Statement of revenues, expenditures and changes in fund balances?	G147				
Statement of revenues, expenditures and changes in fund balances—budget vs. actual? <sup>2</sup>	G148				
Debt service funds:					
Balance sheet?	G149				
Statement of revenues, expenditures and changes in fund balances?	G150				
Statement of revenues, expenditures and changes in fund balances—budget vs. actual? <sup>2</sup>	G151				
Capital project funds:					
Balance sheet?	G152				
Statement of revenues, expenditures and changes in fund balances?	G153				
Statement of revenues, expenditures and changes in fund balances—budget vs. actual? <sup>2</sup>	G154				
Enterprise funds:					
Balance sheet?	G155				
Statement of revenues, expenses and changes in retained earnings?	G156				
Statement of cash flows?	G157				
Internal service funds:					
Balance sheet?	G158				
Statement of revenues, expenses and changes in retained earnings?	G159				
Statement of cash flows?	G160				
Nonexpendable and pension trust funds:					
Balance sheet?	G161				
Statement of revenues, expenses and changes in fund balances?	G162				
Statement of cash flows? <sup>3</sup>	G163				
Agency funds:					
Balance sheet?	G164				

<sup>2</sup> This question is applicable for those funds required to adopt an annual budget.

<sup>3</sup> GASB No. 9 does not require a statement of cash flows by pension trust funds.

	QUES.	N/A	YES	NO	REF.
Combining statement of changes in assets and liabilities, if appropriate?	G165	_____	_____	_____	_____
Expendable trust funds:					
Balance sheet?	G166	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances?	G167	_____	_____	_____	_____
Statement of revenues, expenditures and changes in fund balances—budget vs. actual? <sup>4</sup>	G168	_____	_____	_____	_____
If required, is a statement of changes in general fixed assets presented? (GASB Sec. 2200.106b.(4))	G169	_____	_____	_____	_____
If required, is a statement of changes in general long-term debt presented? (GASB Sec. 2200.106b.(4))	G170	_____	_____	_____	_____
<b>Other Note Disclosures</b>					
Is the presentation appropriate and are disclosures adequate regarding the following significant accounting policies:					
Definition of the governmental reporting entity, the criteria used to determine the scope of the reporting entity, and specific reasons for excluding agencies that meet that criteria? (GASB Sec. 2100.121-.122)	G171	_____	_____	_____	_____
If GASB No. 14 was applicable to this engagement (either as a result of the GASB's effective date or an early application of the GASB), are individual component unit disclosures included within the General Purpose Financial Statements as well as a brief description of the component units, their relationship to the primary government and how the separate financial statements for the individual component units may be obtained?	G172	_____	_____	_____	_____
Basis of accounting applied to each fund? (GASB Sec. 1600)	G173	_____	_____	_____	_____
Revenue recognition policies, including:					
Definitions of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types? (GASB Sec. 1600.102-.105)	G174	_____	_____	_____	_____
Description of revenue sources that are treated as "susceptible to accrual" under the modified accrual basis and those that are not? (GASB Sec. 1600.106-.108)	G175	_____	_____	_____	_____
Accounting for fixed assets concerning:					
Classification in proprietary funds or general fixed assets account group? (GASB Sec. 1400.106)	G176	_____	_____	_____	_____
Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets? (GASB Secs. 1400.109 and .111-.113 and 2300.105m)	G177	_____	_____	_____	_____
Depreciation methods and lives, including whether depreciation is reported on general fixed assets? (GASB Sec. 1400—Statement of Principle—Depreciation of fixed assets)	G178	_____	_____	_____	_____

<sup>4</sup> See footnote 2, page 5510.



	QUES.	N/A	YES	NO	REF.
Capitalization of interest costs during construction? (GASB Sec. 2300.104a.(5))	G179				
Method of accounting and reporting for encumbrances? (GASB Sec. 2300.104a.(3))	G180				
Claims and judgments? (GASB Sec. C50)	G181				
Interfund eliminations not apparent? (GASB Sec. 2300.105(o))	G182				
Long-term liabilities related to proprietary funds, nonexpendable trust and pension funds, special assessment debt? (Long-term liabilities expected to be repaid from governmental funds are accounted for in the General Long-Term Debt Account Group.) (GASB Sec. 1500—Statement of Principle—Accounting for Long-term liabilities)	G183				
Valuation basis and significant or unusual accounting treatment for other assets, liabilities, and fund equity? (GASB Sec. 2300.106)	G184				
Significant accounting policies on expenditures? (AC Sec. A10)	G185				
Statement that the "total" column, if any, on GPFS or CUFS are presented for analytical purposes only? (GASB Sec. 2300.105(l))	G186				
Basis on which each budget is prepared, including:					
Treatment of encumbrances? (GASB Sec. 2300.104a.(3))	G187				
Whether appropriations lapse at year end? (GASB Sec. 1700.129d-e)	G188				
Explanation of the differences, if any, between the budgetary basis and accrual or modified accrual basis used for financial reporting of governmental funds? (GASB Secs. 2400.104 and 2300.105(d))	G189				
Whether presented budgetary information has been amended? (GA)	G190				
Separate summary of significant accounting policies for discrete presentations? (GASB Sec. 2300.105(5))	G191				
Is the presentation appropriate and are disclosures adequate regarding the following:					
Classified balance sheets, where appropriate?	G192				
Accounting changes? (AC Sec. A06)	A114				
Retirement plans? (GASB Secs. 2300.104(g) and .105(p))	A130				
The required information on defined benefit postretirement plans?	A131				
Postemployment health care and life insurance benefits? (GASB Sec. P50.105-.107)	A132				
Deferred compensation plans adopted under IRC 457? (GASB Sec. 2300.105(u))	G193				
Related party transactions? (GASB Sec. 2300.105(f))	A121				

	QUES.	N/A	YES	NO	REF.
Nonmonetary transactions? (AC Secs. N35 and C11)	A125	_____	_____	_____	_____
Segment information for enterprise funds? (GASB Sec. 2500.105(c))	A134	_____	_____	_____	_____
Capital leases of lessees? (GASB Sec. 2300.105g)	G194	_____	_____	_____	_____
Operating leases and rent expense of lessees? (GASB Sec. 2300.104j)	G195	_____	_____	_____	_____
Detail of the government's property tax calendar, including the lien, levy, due and collection dates? (GASB Secs. 2300.105b and P70.109)	G196	_____	_____	_____	_____
Material noncompliance with finance-related legal and contractual provisions, including instances concerning budget amendments, expenditures exceeding appropriations, and debt exceeding legal limitations? (GASB Sec. 2300.104h and n)	G197	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	A139	_____	_____	_____	_____
Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)	A140	_____	_____	_____	_____
Deposits with financial institutions and investments, including risk categories, uninsured deposits, and other disclosures required by professional standards? (GASB Sec. 2300.104b and c)	G198	_____	_____	_____	_____
Term or circumstances concerning repurchase or reverse repurchase agreements? (GASB Secs. 2300.104c and 2300.105v)	G199	_____	_____	_____	_____
Receivables:					
Loans or advances to other funds of the governmental units? (GASB Sec. 1300.110)	G200	_____	_____	_____	_____
Taxes receivable? (GASB Secs. P70.106-.107 and S10.102-.104)	G201	_____	_____	_____	_____
Grant and other receivables from other governments? (GASB Sec. G60.112)	G202	_____	_____	_____	_____
Effect of interest rates which do not reflect market rates? (AC Sec. I69.109)	A145	_____	_____	_____	_____
Receivables related to troubled debt restructurings? (AC Sec. D22.136-.137 and .501-.505)	A146	_____	_____	_____	_____
Other receivables?	A147	_____	_____	_____	_____
Inventories? (AC Secs. B05.105 and I78)	A148	_____	_____	_____	_____
Joint ventures and other investments? (GASB Sec. 2300.105h)	G203	_____	_____	_____	_____
Pooled cash and investment accounts? (GASB Sec. 2300.104c)	G204	_____	_____	_____	_____
If this entity has public entity risk pools (cooperative group of governmental entities) did the auditor:					
Recognize pool premiums as revenue over the contract period? (GASB Sec. Po 20.115-.117)	G205	_____	_____	_____	_____
Recognize claims costs in the period in which the event triggers coverage under the policy? (GASB Sec. Po 20.118-.122)	G206	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Report the estimated loss of a claim if it is both probable and reasonably estimable? (GASB Sec. Po 20.123)	G207				
Fixed assets, including changes during the period and capitalized interest? (GASB Secs. 1400.111 and 2300.104 l)	G208				
Sales-type, direct financing, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)	A151				
Are the operating lease revenues accounted for under the accrual method?	G209				
For leases entered into beginning June 30, 1990, are operating leases with scheduled rent increases accounted for in a systematic and rational manner? If terms are artificially low has the entity used either the straightline or estimated fair value method? (GASB Sec. L20)	G210				
Other assets including intangible assets and deferred charges? (AC Secs. I60, Co 2.106-.110, I24, I25 and I60)	A152				
Pledged assets? (AC Sec. C59.120)	A153				
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	A154				
Short-term liabilities expected to be refinanced? (AC Sec. B05.112-.117, .138 and .139)	A156				
Notes payable, bond, tax, and revenue anticipation notes, and other debt:					
Maturities and rates? (AC Sec. C32.105)	A157				
Other terms and covenants? (AC Sec. C59.120)	A158				
Special assessment debt and related activities? (GASB Sec. 2300.105w)	G211				
Effect of interest rates which do not reflect market rates? (AC Sec. I69)	A159				
Effect of troubled debt restructurings? (AC Sec. D22.121)	A160				
Effect of early extinguishment of debt? (AC Secs. D14 and I17.104)	A161				
Loans or advances from other funds of the governmental unit? (GASB Sec. 1300.110 and ASLGU, Ch. 8, par. 21)	G212				
Debt service requirements to maturity? (GASB Sec. 2300.104i)	G213				
Changes during the period including advance refundings resulting in defeasance of debt? (GASB Sec. 2300.104m)	G214				
Unpaid debt that has been fully defeased? (GASB Sec. D20.111-.114)	G215				

	QUES.	N/A	YES	NO	REF.
Sinking fund contributions required as of year end? (ASLGU, Ch. 11, par. 27)	G216				
Demand notes? (GASB Sec. 2300.105x)	G217				
Compensation for future absences and special termination benefits for employees? (GASB Sec. 2300.105i)	G218				
Designation or reservations or other restrictions of fund balances or retained earnings? (ASLGU, Ch. 12)	G219				
Revenues, expenses and expenditures:					
Grants, entitlements, and shared revenue? (GASB Sec. 2300.105k)	G220				
Investment income?	G221				
Interest cost? (AC Sec. I67.118)	A177				
Depreciation? (AC Sec. D40.105)	A179				
Discontinued operations? (AC Sec. I13)	A191				
With respect to contingencies and commitments:					
Are loss contingencies disclosed and/or accrued as appropriate? (AC Sec. C59.104-.114)	A126				
Are other significant commitments and contingencies and construction commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	A127				
Deficit fund balances or retained earnings of individual funds? (GASB Sec. 2300.104o.)	G222				
Interfund receivables and payables? (GASB Sec. 2300.104p)	G223				
Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having different year ends properly disclosed? (GASB Sec. 2300.105r)	G224				
Are the financial statements adjusted, where appropriate, for the effects of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (GASB Sec. 2300.104f)	G225				
<b>Statement of Cash Flows</b>					
Is a statement of cash flows presented for each period as appropriate? (GASB Sec. 2450.103)	A194				
If the statement of cash flows is presented, does it report cash provided by investing, noncapital financing, capital and related financing and operating activities? (GASB Sec. 2450.104)	G226				
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (GASB Sec. 2450.105)	A196				
Does it provide a reconciliation between net income and net cash flow from operating activities? (GASB Sec. 2450.129)	A197				

	QUES.	N/A	YES	NO	REF.
Are noncash investing, capital and financing activities disclosed? (GASB Sec. 2450.134)	A198	_____	_____	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity value of three months or less? Is the enterprise's policy for determining which items are treated as cash equivalents disclosed?	A200	_____	_____	_____	_____
Do components of the financial statements appear to have been shown at "gross" and not "net" value? (AC Sec. C25.109-.111A)	A202	_____	_____	_____	_____
<b>Other</b>					
Are the statement presentations and disclosures generally consistent with GASB pronouncements and the AICPA's <i>Audits of State and Local Governmental Units</i> ?	A203	_____	_____	_____	_____

## II. GENERAL AUDIT PROCEDURES

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
In planning the audit engagement, did the auditor properly consider:					
Does the engagement letter, proposal or contract, if such documents were prepared, include a statement as to what type of engagement is being performed and whether the engagement is intended to meet the governmental oversight agency's audit requirements?	G250	_____	_____	_____	_____
Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and governmental regulations, contractual obligations and technological changes? (AU Secs. 311.03 and 801.08 and GAO, Ch. 4, pars. 10-12)	A204	_____	_____	_____	_____
Definition of the reporting entity indicating the related organizations, functions, and activities that are either included or excluded from the financial statements in accordance with professional standards? (GASB Sec. 2100; and GASB No. 14 and ASLGU, Ch. 5, par. 7)	G251	_____	_____	_____	_____
Preliminary judgment, by fund type, about materiality levels (AU Secs. 311.03 and 312.08)	A206	_____	_____	_____	_____
Factors affecting the continued functioning of the government, such as legal limitations on revenue, expenditures, or debt service? (AU Sec. 341)	G252	_____	_____	_____	_____
Did the auditor:					
Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts? (AU Secs. 312.12 and 316.05)	A207	_____	_____	_____	_____
Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12)	A208	_____	_____	_____	_____
Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU Sec. 316.15)	A209	_____	_____	_____	_____
Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures? (AU Sec. 329.01 and .06)	A210	_____	_____	_____	_____
If the auditor succeeded a predecessor auditor, did the auditor:					
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)	A211	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.06)	A212	_____	_____	_____	_____
Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor's working papers? (AU Sec. 315.08)	A213	_____	_____	_____	_____
If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with professional standards? (AU Sec. 322)	A214	_____	_____	_____	_____
Did the auditor:					
Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Secs. 319.16 and 324.07-.10)	A215	_____	_____	_____	_____
Document the understanding of the internal control structure? (AU Sec. 319.26)	A216	_____	_____	_____	_____
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)	A217	_____	_____	_____	_____
Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)	A218	_____	_____	_____	_____
If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the internal controls of the accounting applications, if any, at the service organization? (AU Sec. 311.03)	A219	_____	_____	_____	_____
If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report obtained and appropriately considered, or test performed by the auditor at the service organization? (AU Sec. 324.05 and .10)	A220	_____	_____	_____	_____
If the engagement included work performed by joint auditors or by another office, correspondent, or affiliate:					
Do the instructions to the other office or firm appear adequate? (AU Sec. 311)	A221	_____	_____	_____	_____
Does it appear that the control exercised over the work of others through supervision and review was adequate? (AU Sec. 311)	A222	_____	_____	_____	_____
Was there appropriate follow-up of open matters? (AU Sec. 543.10)	A223	_____	_____	_____	_____
In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation? (AU Sec. 543.10)	A224	_____	_____	_____	_____
For a jointly signed audit report, are there indications that the auditor has conducted sufficient audit procedures to warrant signing the report in an individual capacity? (ASL GU, ch. 18, par. 42)	G253	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the principal auditor did not refer to the other auditor in his or her report, did the principal auditor perform one or more of the additional procedures contained in AU 543.12 to assess the adequacy of the work performed by the other auditor? (AU Sec. 543.12)	G254	_____	_____	_____	_____
Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and ASLGU, Ch. 5, par. 19)	G255	_____	_____	_____	_____
Was the audit program responsive to the needs of the engagement, and the understanding of internal control structure obtained during the planning process? (AU Sec. 319.02 and .05)	A226	_____	_____	_____	_____
Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)	A227	_____	_____	_____	_____
If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)	A228	_____	_____	_____	_____
Have all procedures called for in the audit program been signed? (AU Sec. 339)	A229	_____	_____	_____	_____
If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):					
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and likely rate of deviations? (AU Sec. 350.31)	A230	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)	A231	_____	_____	_____	_____
Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures? (AU Sec. 350.40-.43)	A232	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)	A233	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A234	_____	_____	_____	_____
If statistical or nonstatistical sampling was used for substantive tests of details and tests of applicable laws and regulations, if appropriate:					
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatements, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)	A235	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)	A236	_____	_____	_____	_____
Were the misstatement results of the sample projected to the items from which the sample was selected? (AU Sec. 350.26)	A237	_____	_____	_____	_____



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternative procedures could not be performed? (AU Sec. 350.25)	A238	_____	_____	_____	_____
In the evaluation of whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatement results from all audit sampling applications and to known misstatements from non-sampling applications? (AU Sec. 350.30)	A239	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A240	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Consider the guidelines of professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)	A241	_____	_____	_____	_____
Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)	A242	_____	_____	_____	_____
Has the auditor evaluated the reasonableness of accounting estimates made by management? (AU Sec. 342)	A243	_____	_____	_____	_____
Did the auditor obtain a timely and appropriate (industry specific and/or Single Audit Act) letter of representation from management? (AU Secs. 333.01 and 801.91)	A244	_____	_____	_____	_____
Did the auditor obtain timely and appropriate responses from the entity's attorney concerning litigation, claims, and assessments? (AU Sec. 337.06)	A245	_____	_____	_____	_____
Have all questions, exceptions, or notes posed during the audit been resolved, including consideration of views obtained from responsible officials of the entity concerning the auditor's findings?	A246	_____	_____	_____	_____
Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)	A247	_____	_____	_____	_____
If applicable, were adequate tests of compliance with applicable laws and regulations that have a material effect on the financial statements performed and documented? (AU Sec. 801.08 and .23)	G256	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
If the auditor became aware that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement, communicate to management and the audit committee (or others with equivalent authority) that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory to contractual requirements? (Communication may be oral or in writing—if the communication is oral, the auditor should document the communication in the working papers)	G257	_____	_____	_____	_____
Follow up on misstatements and irregularities in accordance with professional standards? (AU Sec. 316.24-.29)	A248	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 316.25)	A249	_____	_____	_____	_____
Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)	A250	_____	_____	_____	_____
When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:					
Follow up on illegal acts having a direct and material effect on the financial statements and on all other illegal acts in accordance with professional standards? (AU Secs. 316.24-.28 and 317.10)	A251	_____	_____	_____	_____
Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)	A252	_____	_____	_____	_____
Communicate directly with the audit committee if the illegal act involved senior management, document that communication and obtain assurance that all illegal acts which come to the auditor's attention are adequately communicated? (AU Sec. 317.17)	A253	_____	_____	_____	_____
If evidence exists of situations or transactions that could be indicative of errors, irregularities or illegal expenditures and acts, did the auditor:					
Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation and disclose any reservations regarding compliance with applicable laws and regulations? (AU Sec. 801.77)	G258	_____	_____	_____	_____
Give prompt notice to the appropriate management officials above the level of involvement? (AU Secs. 317.17 and 801.31-.32)	G259	_____	_____	_____	_____
Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?	A254	_____	_____	_____	_____
If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))	A255	_____	_____	_____	_____
If the auditor's substantial doubt was alleviated, did the notes to the financial statements adequately disclose the principal conditions and events, the possible effects, and any mitigating factors, including management's plans? (AU Sec. 341.03(c))	A256	_____	_____	_____	_____
If the auditor's substantial doubt was not eliminated, did the auditor's report include an explanatory paragraph which adequately communicates the auditor's substantial doubt (e.g., includes the terms "substantial doubt" and "going concern")? (AU Sec. 341)	A257	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were all material instances of weakness in internal controls and all identified instances of noncompliance with applicable laws and regulations:					
Adequately evaluated and documented? (AU Sec. 801.18)	G260	_____	_____	_____	_____
Appropriately reported in accordance with applicable standards? (AU Sec. 325)	G261	_____	_____	_____	_____
If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards, in determining an appropriate course of action, and does the matter appear to be properly resolved? <sup>5</sup> (AU Sec. 561)	A265	_____	_____	_____	_____
If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)	A266	_____	_____	_____	_____
Where there is a formal oversight committee, did the auditor:					
Ensure that appropriate matters were communicated to those with responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)	A267	_____	_____	_____	_____
If the communication was in writing, prepare a written report that included a statement that the communication was intended solely for the use of the audit committee or the board of directors and, if appropriate, management? (AU Sec. 380.03)	A268	_____	_____	_____	_____
If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers? (AU Sec. 380.03)	A269	_____	_____	_____	_____

<sup>5</sup> This question also applies to circumstances when, subsequent to the date of the audit report on the general purpose financial statements, the auditor, while performing procedures to support the other reports required by the Single Audit Act, identifies additional information that existed at the report date.

## III. WORKING PAPER AREAS

**NOTE:** In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an "X" in the box below the name of the working paper area. (As indicated on page 5503, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" below the area.)

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Cash</b>					
<input type="checkbox"/> Not a key area.					
Were bank accounts confirmed and were reconciling items cleared by reference to subsequent statements obtained directly from the bank (or obtained from the client and appropriately tested)?	A301	_____	_____	_____	_____
Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period? (AU Secs. 313.07 and 560.10-.11)	A302	_____	_____	_____	_____
Do the working papers indicate that the following were considered:					
Restrictions on cash balances?	A303	_____	_____	_____	_____
Confirmation of bank credit arrangements such as compensating balances?	A304	_____	_____	_____	_____
Confirmation of liabilities and contingent liabilities to banks?	A305	_____	_____	_____	_____
Approval of interfund cash transactions?	G301	_____	_____	_____	_____
Verification of collateral required of depository institutions for public funds? (GASB Sec. I50.107-.111)	G302	_____	_____	_____	_____
Compliance with the laws and regulations governing the deposit of public funds? (GASB Sec. C20)	G303	_____	_____	_____	_____
Determination that all cash accounts have been identified and appropriately recorded? (ASL GU, Ch. 7, pars. 6-16)	G304	_____	_____	_____	_____
Review of repurchase security transactions for consistency with the disclosures of the terms or circumstances of the transactions? (GASB Sec. I50.159-.160)	G305	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of cash appear adequate? (AU Sec. 319)	A306	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Receivables</b>					
<input type="checkbox"/> Not a key area.					
Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 331.24-.30)	A307	_____	_____	_____	_____
If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?	A308	_____	_____	_____	_____
If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed? (AU Sec. 330.32)	A309	_____	_____	_____	_____
Were significant notes receivable confirmed as of the balance sheet date?	A310	_____	_____	_____	_____
Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers? (AU Sec. 330.33)	A311	_____	_____	_____	_____
Was collateral (if any) for receivables examined with respect to existence, ownership and value?	A312	_____	_____	_____	_____
Were procedures performed to provide evidence that taxes receivable and the related revenues were recorded in the correct period? (ASL GU, Ch. 8, par. 22)	G306	_____	_____	_____	_____
Were adequate tests of discounts and allowances made?	A313	_____	_____	_____	_____
Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectability of receivables, including interfund receivables, adequately considered? (AU Sec. 312.29)	A314	_____	_____	_____	_____
Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are pledged, assigned or otherwise encumbered?	A315	_____	_____	_____	_____
Was receivable work coordinated with tests of revenues, including cut-off tests?	A316	_____	_____	_____	_____
Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?	A317	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of receivables appear adequate? (AU Sec. 319)	A318	_____	_____	_____	_____
<b>Inventories</b>					
<input type="checkbox"/> Not a key area.					
Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?	A328	_____	_____	_____	_____
Do the working papers indicate that there were adequate tests of:					
Physical observation, if material? (AU Sec. 331.09-.12)	G307	_____	_____	_____	_____
The clerical accuracy of the inventory?	A324	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Costing methods and substantiation of costs used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?	A325	_____	_____	_____	_____
Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?	A326	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of inventory appear adequate? (AU Sec. 319)	A333	_____	_____	_____	_____
<b>Investments</b>					
<input type="checkbox"/> Not a key area.					
Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during the period, income, market value, etc., of investments?	A334	_____	_____	_____	_____
Were securities either examined or confirmed? (AU Sec. 332.04)	A335	_____	_____	_____	_____
Was the computation of realized gains and losses properly tested by the auditor?	A336	_____	_____	_____	_____
Do the working papers reflect consideration of the appropriateness of carrying values of securities and their classification into categories in conformity with professional standards? (GASB Sec. 150)	A337	_____	_____	_____	_____
Were investigations of possible impairment of the carrying value of long-term investments made? (AU Sec. 332.03)	A338	_____	_____	_____	_____
Do the working papers reflect consideration that investments were pledged, restricted, or had limitations on their immediate use?	A339	_____	_____	_____	_____
For joint venture investments (accounted for on the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related note disclosures? (GASB Sec. J50)	G308	_____	_____	_____	_____
Was a review made to determine whether the investments are of the types authorized by law or comply with the applicable statutes and investment policies? (ASLGU, Ch. 7, pars. 4 and 10)	G309	_____	_____	_____	_____
Were income, gains and losses from investments examined for proper allocation to the individual funds? (GASB Sec. I50.104-.105)	G310	_____	_____	_____	_____
For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral)? (ASLGU, Ch. 7, pars. 15-16)	A341	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of investments appear adequate? (AU Sec. 319)	A342	_____	_____	_____	_____
<b>Prepaid Expenses, Intangible Assets, Deferred Charges, etc.</b>					
<input type="checkbox"/> Not a key area.					
Were adequate tests made and/or confirmations received for all material:					
Prepaid expenses?	A343	_____	_____	_____	_____
Intangible assets?	A344	_____	_____	_____	_____

	QUES.	N/A	YES	NO	REF.
Deferred charges?	A345	_____	_____	_____	_____
Other?	A346	_____	_____	_____	_____
Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?	A347	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate? (AU Sec. 319)	A350	_____	_____	_____	_____
<b>Fixed Assets</b>					
<input type="checkbox"/> Not a key area.					
Was a summary schedule by source prepared (or obtained) to show beginning balances, changes during the period and ending balances for:					
Property, plant and equipment?	A351	_____	_____	_____	_____
Accumulated depreciation (where applicable)?	A352	_____	_____	_____	_____
Do tests appear adequate and were proper conclusions drawn with respect to:					
Additions (by the examination of supporting documents and/or physical inspection)?	A353	_____	_____	_____	_____
Retirements, etc. (including examination of miscellaneous income, scrap sales)?	A354	_____	_____	_____	_____
The adequacy of current and accumulated provisions for depreciation and depletion?	A355	_____	_____	_____	_____
Status of idle facilities?	A356	_____	_____	_____	_____
Do working papers indicate that the auditor considered the possibility that property was subject to liens?	A357	_____	_____	_____	_____
Was a review made to determine that capital expenditures are classified in the proper fund accounts and made in accordance with budgetary requirements? (GASB Secs. 1700.118-.119 and 1800.115-.120)	G311	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate? (AU Sec. 319)	A358	_____	_____	_____	_____
<b>Liabilities</b>					
<input type="checkbox"/> Not a key area.					
Were accounts and warrants payable adequately tested for propriety?	A359	_____	_____	_____	_____
Was an adequate search performed for unrecorded liabilities at the balance sheet date?	A360	_____	_____	_____	_____
Was the payables work coordinated with the testing of the purchases cut-off?	A361	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences or postemployment), and to whether accrued expenses were reasonably stated?	A362	_____	_____	_____	_____
Were procedures performed to determine whether deferred compensation plans are appropriately disclosed? (GASB Sec. D25)	G312	_____	_____	_____	_____
Were significant notes and bonds payable, together with interest rates, and repayment periods, etc., confirmed or alternative procedures performed?	A363	_____	_____	_____	_____
Were audit procedures performed to verify whether the carrying value of debt obligations reflects the present value of the consideration received and the appropriate interest rates?	A364	_____	_____	_____	_____
Is there evidence of testing of the company's compliance with covenants to debt obligations?	A365	_____	_____	_____	_____
Was an examination made to determine that:					
New debt issues are properly issued as required by the state constitution or state/local statute and are recorded in the correct fund and/or account group? (ASLGU, Ch. 11, par. 29)	G313	_____	_____	_____	_____
Debt restrictions, guarantees and other debt commitments are properly disclosed? (ASLGU, Ch. 11, pars. 26-28)	G314	_____	_____	_____	_____
Do the tests of interfund borrowings appear adequate with respect to:					
Legal restrictions, if any, on such borrowings? (GASB Sec. 1300.110)	G315	_____	_____	_____	_____
Authorization? (GASB Sec. 1300.110)	G316	_____	_____	_____	_____
Classification? (ASLGU, Ch. 8, par. 18)	G317	_____	_____	_____	_____
Appropriateness of interest accruals and payments? (ASLGU, Ch. 11, par. 29)	G318	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of liabilities appear adequate? (AU Sec. 319)	A366	_____	_____	_____	_____
<b>Deferred Revenue</b>					
<input type="checkbox"/> Not a key area.					
Do the working papers reflect consideration of whether the basis of deferring revenue is reasonable and consistent with restrictions imposed by the grantor or by the special assessment?	A367 & A368	_____	_____	_____	_____
Where applicable, was consideration given to matching requirements, if any? (AU Sec. 801.49c)	G319	_____	_____	_____	_____
If there were grants, entitlements or shared revenues received but not expended, where expenditure is the prime factor for determining eligibility, were the funds properly reported as deferred revenue?	G320	_____	_____	_____	_____



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Commitments and Contingencies</b>					
<input type="checkbox"/> Not a key area.					
Do the working papers include indication of the following:					
Inspection of minutes of meetings of the oversight unit, provisions of the governmental unit's charter, and applicable statutes and changes therein?	A373	_____	_____	_____	_____
Inspection of contracts, loan agreements, leases and correspondence from taxing and other governmental agencies, and similar documents?	A374	_____	_____	_____	_____
Accumulation and analysis of confirmation responses from banks and lawyers?	A375	_____	_____	_____	_____
Inquiry and discussion with management including management's written representations concerning liabilities and litigation, claims, assessments and regulatory requirements as applicable? (AU Secs. 337.05 and 333)	A376	_____	_____	_____	_____
Consideration of prior audits of federal financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance? (ASLGU Ch. 22, par. 35 and Ch. 21, par. 25)	G321	_____	_____	_____	_____
Inspection of long-term contracts with nongovernmental entities, such as construction contractors?	G322	_____	_____	_____	_____
Is there indication that procedures were performed to uncover the need for recording or disclosing events subsequent to the date of the financial statements? (AU Sec. 560.10-.12)	A378	_____	_____	_____	_____
Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)	A379	_____	_____	_____	_____
<b>Fund Equity</b>					
<input type="checkbox"/> Not a key area.					
Where applicable, were authorizations of changes in reserves and designated balances examined? (ASLGU, Ch. 12, pars. 4 and 19-20)	G323	_____	_____	_____	_____
Do the working papers indicate that there were appropriate inquiries, where applicable, as to proper classification, description and disclosures of components of fund equity? (ASLGU, Ch. 12, par. 11)	G324	_____	_____	_____	_____
Do the working papers indicate that fund transfers were properly approved and recorded? (GASB Sec. 1300.110)	G325	_____	_____	_____	_____
<b>Revenues and Expenditures/Expenses</b>					
<input type="checkbox"/> Not a key area.					
Were revenues and expenditures and/or expenses for the period compared to the budget and the preceding period and reviewed for reasonableness, and were significant variances and fluctuations explained? (AU Sec. 329)	A385	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was adequate consideration given to:					
The entity's revenue recognition policy? (AC Sec. A10.105)	A386	_____	_____	_____	_____
Income recognition on transactions where the earnings process was not complete?	A387	_____	_____	_____	_____
Do the working papers indicate that revenues and interfund transactions were recognized in the accounting period in which they became available and measurable under the applicable basis of accounting? (GASB Sec. 1600.106-.116)	G326	_____	_____	_____	_____
Do the working papers indicate that the auditor considered the effect of program income on federal grants and any related activities? (ASLGU, Ch. 8, par. 28 and Ch. 17, par. 12)	G327	_____	_____	_____	_____
Has it been determined that:					
Expenditures are in accordance with the approved budget as to amounts and purpose? (ASLGU, Ch. 6, par. 24 and Ch. 10, par. 27)	G328	_____	_____	_____	_____
Encumbrances are properly identified, supported and recorded? (GASB Secs. 1700.129-.130)	G329	_____	_____	_____	_____
Indirect cost allocations are in accordance with OMB A-87? (OMB Circular A-128, Questions and Answers, par. 17)	G330	_____	_____	_____	_____
Were tests of payrolls, including account distribution, made, where appropriate?	A383	_____	_____	_____	_____
Concerning pension plans, do the tests made of the expenses and liabilities appear adequate? (AC Sec. P16)	A384	_____	_____	_____	_____
If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:					
Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement? (ASLGU, Ch. 8, par. 28)	G331	_____	_____	_____	_____
Were cost reimbursement reports and the underlying support reviewed? (ASLGU, Ch. 8, par. 28)	G332	_____	_____	_____	_____
Were appropriate allocations made of indirect costs among the entity's programs? (ASLGU, Ch. 8, par. 28)	G333	_____	_____	_____	_____
Was the effect of audits, either required or performed by third party grantors, considered? (ASLGU, Ch. 17, par. 13)	G334	_____	_____	_____	_____
If grants are awarded to other organizations, did the auditor review:					
The classification of the grants?	G335	_____	_____	_____	_____
The effects of the grantees' compliance or noncompliance with performance requirements? (ASLGU, Ch. 10, par. 27)	G336	_____	_____	_____	_____
Based on the assessment of control risk, did the substantive tests (review, analysis, and testing) of revenues and expenditures/expenses appear adequate? (AU Sec. 319)	A390	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Other</b>					
Have leases been reviewed to determine that capital, sales, and direct financing leases have been properly accounted for? (GASB Sec. L20)	A391	_____	_____	_____	_____
Were appropriate procedures applied to supplemental information? (AU Sec. 551.06 and .08)	A392	_____	_____	_____	_____
If the work of a specialist was used, did the auditor apply the guidance in professional standards? (AU Sec. 336.05-.12)	A395	_____	_____	_____	_____
Were specific procedures applied for determining the existence of related parties and examining identified related party transactions? (AU Sec. 334)	A396	_____	_____	_____	_____

## IV. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Independence (QC Sec. 10.07a)</b>					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered? (ET Sec. 101)	A501	_____	_____	_____	_____
Was timely and appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)	A503	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	A504	_____	_____	_____	_____
<b>Assigning Personnel to Engagements (QC Sec. 10.07b)</b>					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	A505	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)	A506	_____	_____	_____	_____
<b>Consultation (QC Sec. 10.07c)</b>					
Was there appropriate consultation and documentation:					
In situations specified by firm policy?	A507	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	A508	_____	_____	_____	_____
Were the firm's conclusions consistent with professional standards?	A509	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	A510	_____	_____	_____	_____
<b>Supervision (QC Sec. 10.07d)</b>					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)	A511	_____	_____	_____	_____
Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)	A512	_____	_____	_____	_____
Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	A513	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does it appear that the hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	A514	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, <u>required by firm policy</u> for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	A515	_____	_____	_____	_____
Review of internal control structure:					
Manual system?	A516	_____	_____	_____	_____
EDP system?	A517	_____	_____	_____	_____
Audit work programs?	A518	_____	_____	_____	_____
Financial statement disclosures?	A519	_____	_____	_____	_____
Working papers and financial statement reviews?	A520	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	A521	_____	_____	_____	_____
Were the firm's guidelines for the form and content of audit working papers complied with?	A522	_____	_____	_____	_____
If used, were scientific audit tools (e.g., computer auditing, statistical sampling, etc.) properly evaluated by persons with training in these areas? (AU Sec. 311.10)	A523	_____	_____	_____	_____
If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy, and was that review documented?	A524	_____	_____	_____	_____
<b>Advancement</b> (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	A525	_____	_____	_____	_____
<b>Acceptance and Continuance of Clients</b> (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	A526	_____	_____	_____	_____
<b>Professional Development</b> (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, etc.)? (QC Sec. 90.20)	A527	_____	_____	_____	_____

**V. Appendix A—Questions for Use When the Engagement Is Subject to *Government Auditing Standards***

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
Does the language in the auditor's reports conform with professional standards (optional for reports on basic financial statements), including references to <i>Government Auditing Standards</i> (GAO, ch. 5, par. 3 and SOP 92-7, ch. 6, Appendix D, par. D-2) and appropriately cover the following for the entity as a whole:	G401	_____	_____	_____	_____
The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements (AU Sec. 801.33 and SOP 89-6 and GAO, ch. 5, par. 17) that includes, when appropriate:	G402	_____	_____	_____	_____
The controls that were evaluated? (SOP 89-6 Example 25 and GAO, ch. 5, pars. 21 and 22)	G403	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing identified nonreportable conditions? (GAO, ch. 5, par. 25)	G404	_____	_____	_____	_____
Which matters are reportable conditions and which of the reportable conditions are material weaknesses? (GAO, ch. 5, pars. 17 and 23)	G405	_____	_____	_____	_____
Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indications of illegal acts (AU Sec. 801.21 and GAO, ch. 5, par. 5) that includes, when appropriate:	G406	_____	_____	_____	_____
A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations? (AU Sec. 801.26 and GAO, ch 5, par. 6)	G407	_____	_____	_____	_____
Presentation of material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding issuance of a report on compliance? (GAO, ch. 5, par. 5 and AU Sec. 801.24-.27)	G408	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing immaterial instances of noncompliance? (AU Sec. 801.30 and GAO, ch. 5, par. 8)	G409	_____	_____	_____	_____
When illegal acts involve funds received from other governmental entities did the auditors assure themselves that the audited entity notified the proper official, of those entities, within a reasonable time? If the entity did not, or was unable to do so because the top official was involved, has the auditor reported these acts to the officials of those other governmental entities? (GAO, ch. 5, par. 13 and AU Sec. 801.32)	G410	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

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	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results? (GAO, ch. 5, par. 4)	G411	_____	_____	_____	_____
When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts? (AU Sec. 801.32)	G412	_____	_____	_____	_____
Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (AU Sec. 801.20)	G413	_____	_____	_____	_____
Did the auditor document his/her communication of those nonreportable conditions in the internal control structure not included in the required reports? (AU Sec. 801.38-.39 and GAO, ch. 5, par. 25)	G414	_____	_____	_____	_____
If required by contractual obligations, were findings presented in accordance with the guidance in the <i>Government Auditing Standards</i> regarding reporting on performance audits? (GAO, ch. 7)	G415	_____	_____	_____	_____
Do the working papers include a cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer? (GAO, ch. 4, par. 22)	G416	_____	_____	_____	_____
Are appropriate personnel in compliance with the 1988 Yellow book CPE requirements? (GAO, ch. 3, pars. 6-9 and ch. 4, par. 22c and GAO, Interpretation of Continuing Education and Training Requirements)	G417	_____	_____	_____	_____
Was appropriate assurance of independence considered on three levels: personal, external and organizational and did the auditor maintain an independent attitude and appearance? (GAO, ch. 3, pars. 11-25)	G418	_____	_____	_____	_____
If the auditor (firm) is a CPA or PA, did the auditor meet the licensing requirements of the jurisdiction where the auditee is located? (GAO, ch. 3, par. 10)	G419	_____	_____	_____	_____
<u>Programs Specific Audits</u>					
Where an auditor has been engaged to conduct a program specific audit, did the auditor obtain an understanding of the audit requirements of that particular program? (AU Sec. 801.96)	G420	_____	_____	_____	_____

**VI. Appendix B—Questions for Use When the Engagement Is Subject to the Single Audit Act of 1984**

NOTE: Reports mentioned in Appendix B are in addition to those indicated previously in Appendix A.

SOP 90-9 *The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs under the Single Audit Act* was issued in November 1990 with an effective date for audits of fiscal periods beginning on or later than January 1, 1991. SOP 92-7, *Audits of State and Local Governmental Entities Receiving Federal Financial Assistance* is effective for audits done in accordance with the Single Audit Act and OMB Circular A-128 for audits of fiscal years ending on or after December 15, 1992. Earlier application is encouraged.

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Does the language in the auditor's reports conform with professional standards, including references to <i>Government Auditing Standards</i> and OMB Circular A-128?	G501	_____	_____	_____	_____
Do the Single Audit Act Reports also include:					
Auditor's report on the schedule of federal financial assistance? (ASL GU, Ch. 17)	G502	_____	_____	_____	_____
Auditor's report on internal controls over federal financial assistance program identifying the entity's internal control structure and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including (SOP 90-9, Appendix A):	G503	_____	_____	_____	_____
The controls that were evaluated? [considered and tested] (OMB Circular A-128 13a(2))	G504	_____	_____	_____	_____
The controls that were not evaluated? [tested] (OMB Circular A-128 13a(2))	G505	_____	_____	_____	_____
The material weaknesses identified as a result of the evaluation? [considered and tested] (OMB Circular A-128 13a(2))	G506	_____	_____	_____	_____
<b>Major Programs—compliance report—specific requirements:</b>					
An opinion that the entity complied, in all material respects, with specific requirements that, if not complied with, could have a material effect? (AU Sec. 801.80)	G507	_____	_____	_____	_____
<b>Nonmajor Programs—compliance report—specific requirements:</b>					
A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs? (AU Sec. 801.89)	G508	_____	_____	_____	_____
<b>Major and Nonmajor Programs—compliance auditing—general requirements:</b>					
A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements? (AU Sec. 801.51e-f)	G509	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist.



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
When appropriate, did the auditor modify the report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding reporting on performance audits? (AU Sec. 801.51g and .79)	G510	_____	_____	_____	_____
Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope? (AU Sec. 801.56 and ASLGU ch. 21, par. 31)	G511	_____	_____	_____	_____
Does the schedule of federal financial assistance program expenditures present the following:					
Identification of each program as indicated in the <i>Catalog of Federal Domestic Assistance</i> (CFDA)?	G512	_____	_____	_____	_____
Other federal assistance from programs not included in the CFDA?	G513	_____	_____	_____	_____
Total expenditures for each federal financial assistance program by grantor, department, or agency?	G514	_____	_____	_____	_____
Total federal financial assistance?	G515	_____	_____	_____	_____
Other information, either required by federal program managers or otherwise deemed appropriate?	G516	_____	_____	_____	_____
Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-128 ( <i>Audits of State and Local Governments</i> ), A-87 ( <i>Cost Principles Applicable to Grants and Contracts</i> ), and "common rule" under A-102 ( <i>Uniform Requirements for Assistance to State and Local Governments</i> )?	G517	_____	_____	_____	_____
Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance (AU Sec. 801.20 fn. 10 and GAO, ch. 3, par. 41)?	G518	_____	_____	_____	_____
Did the auditor perform and document the required level of internal control structure review, to include:					
The consideration and testing of those internal control structure policies and procedures, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if the auditor intended to assess control risk below the maximum level? (SOP 90-9, par. 9)	G519	_____	_____	_____	_____
If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering non-major programs, to the same extent as in Question G519 above so that controls over at least 50 percent of total federal financial assistance program expenditures are studied and evaluated? (SOP 90-9, par. 10)	G520	_____	_____	_____	_____
A sufficient understanding of the internal control structure for the systems used in administering other non-major federal financial assistance programs? (SOP 90-9, par. 10)	G521	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
For the categories of controls for which the test of controls were performed:					
Do the working papers document the auditor's understanding of the structure? (AU Sec. 319.26)	G522	_____	_____	_____	_____
In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described? (AU Sec. 319)	G523	_____	_____	_____	_____
Did the auditor include the recipient's system for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports? (AU Sec. 801.74-.75)	G524	_____	_____	_____	_____
Do the working papers adequately document the work performed and the conclusions reached? (AU Sec. 319)	G525	_____	_____	_____	_____
In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:					
Consult appropriate sources, such as the <i>Compliance Supplement for Single Audits of State and Local Governments</i> (revised September 1990), statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (AU Sec. 801.58-.62)	G526	_____	_____	_____	_____
Consider materiality in relation to each major federal assistance program? (AU Sec. 801.57)	G527	_____	_____	_____	_____
Select a representative number of charges from each major program? (ASLGU ch. 22, par. 4)	G528	_____	_____	_____	_____
Perform and document tests to determine whether (AU Sec. 801.58):					
The amounts reported as expenditures were allowable under federal regulations and contracts? (AU Sec. 801.58a)	G529	_____	_____	_____	_____
Only eligible persons or organizations received services or benefits? (AU Sec. 801.58b)	G530	_____	_____	_____	_____
Matching requirements were met? (AU Sec. 801.58c)	G531	_____	_____	_____	_____
Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements? (AU Sec. 801.58d and ASLGU, ch. 22, par. 24)	G532	_____	_____	_____	_____
The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program? (AU Sec. 801.58e)	G533	_____	_____	_____	_____
Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning (AU Sec. 801.47):					
Political activity? (AU Sec. 801.47a)	G534	_____	_____	_____	_____
Civil rights? (AU Sec. 801.47c)	G535	_____	_____	_____	_____
Davis-Bacon Act? (AU Sec. 801.47b)	G536	_____	_____	_____	_____
Cash management? (AU Sec. 801.47d)	G537	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Relocation of assistance and real property acquisition? (AU Sec. 801.47e)	G538	_____	_____	_____	_____
Federal financial reports? (AU Sec. 801.47f)	G539	_____	_____	_____	_____
Allowable costs/cost principles? (AU Sec. 801.81g)	G540	_____	_____	_____	_____
Drug-free workplace act? (AU Sec. 801.81h)	G541	_____	_____	_____	_____
Administrative requirements? (AU Sec. 801.81i)	G542	_____	_____	_____	_____
Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (AU Sec. 801.76-.79)	G543	_____	_____	_____	_____
Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance? (AU Sec. 801.53 and .87)	G544	_____	_____	_____	_____
Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs? (OMB Cir. A-128, Questions and Answers, par. 20)	G545	_____	_____	_____	_____
Where transactions related to non-major federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific requirements that apply to the individual transactions so tested? (AU Sec. 801.87 and .90)	G546	_____	_____	_____	_____
If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (ASLGU, ch. 21, pars. 40 and 41)	G547	_____	_____	_____	_____
Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time? (GAO, ch. 5, par. 34)	G548	_____	_____	_____	_____
Has the auditor established policies or procedures for complying with the additional requirements concerning (ASLGU, ch. 21, par. 27):					
Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?	G549	_____	_____	_____	_____
Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?	G550	_____	_____	_____	_____

**VII. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS**

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

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\* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

Page  
NumberQuestion  
NumberExplanatory CommentsDisposition  
of Comments

Page  
Number

Question  
Number

Explanatory Comments

Disposition  
of Comments

## VIII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards including, where applicable, the requirements of the Single Audit Act?
- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)?
- The auditor's reports, including all reports required either by *Government Auditing Standards* or by the Single Audit Act, were not appropriate in the circumstances?
- The documentation on this engagement does not support the firm's opinion on the financial statements?
- The firm did not comply with its policies and procedures on this engagement in all material respects?

YES\* \_\_\_\_\_ NO \_\_\_\_\_

YES\* \_\_\_\_\_ NO \_\_\_\_\_

YES\* \_\_\_\_\_ NO \_\_\_\_\_

YES \_\_\_\_\_ NO \_\_\_\_\_

YES \_\_\_\_\_ NO \_\_\_\_\_

\_\_\_\_\_

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\* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting On Quality Reviews*.

# QRP Section 5600

## *Not-for-Profit Audit Engagement Checklist*

### **Instructions for Use of Not-for-Profit Audit Engagement Checklist**

This checklist was developed for use by reviewers of audits of not-for-profit organizations, including those entities that receive federal financial assistance.

The questions in the checklist are intended to emphasize the general procedures that an independent auditor would ordinarily perform in examining and reporting on financial statements of not-for-profit organizations. Accordingly, the matters covered in this checklist concentrate primarily on the accounting and auditing procedures that are unique to those not-for-profit audits and that extend the auditor's responsibilities beyond compliance with the AICPA's GAAS.

Reviewers may adapt this checklist to fit specific engagements. If the not-for-profit entity is contractually required to submit reports prepared in accordance with OMB Circular A-133, the reviewer should complete section III ("Audits of Governmental Grantees"). Likewise, individuals reviewing review or compilation engagements of not-for-profit organizations should combine sections I ("Report and Financial Statements") and III ("Audits of Governmental Grantees") of this checklist with sections II ("General Procedures"), III ("Functional Areas") and V ("Conclusions") of the review and compilation checklists.

If the reviewer is reviewing an organization that follows the AICPA Audit and Accounting Guide *Audits of Voluntary Health and Welfare Organizations*, the reviewer should complete this checklist and the supplemental checklist for review of voluntary health and welfare organizations.

The questions have been derived principally from the pronouncements of the Auditing Standards Board, the AICPA's *Statement of Position 78-10 Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, the AICPA Audit and Accounting Guide *Audits of Certain Nonprofit Organizations*, *Audits of Colleges and Universities*, the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*, the AICPA financial reporting practice aid *Disclosure Checklists for Nonprofit Organizations* or OMB Circular A-133 *Audits of Institutions of Higher Education and Other Nonprofit Institutions* and the 1988 *Government Auditing Standards* (section III of this checklist).

Reviewers should be aware that *Statement of Position 78-10* has a unique position compared to other statements of position and audit guides as it does not have an effective date (paragraph 124). However, *FASB No. 32* indicates that the specialized accounting and reporting principles and practices contained in *SOP 78-10* are preferable accounting principles for applying *APB Opinion No. 20*. The common interpretation of this situation is that an entity is not required to adopt the accounting principles advocated in *SOP 78-10*; however, if an organization changes its accounting principles, it should adopt the principles enumerated in that document.

By comparison, the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* is effective and, as noted in the notice to readers on the inside cover, members are on notice that they may be called upon to justify departures from the accounting principles in the guide.

OMB Circular A-133 establishes audit requirements and defines Federal responsibilities for implementing and monitoring such requirements for institutions of higher education and other not-for-profit institutions receiving awards. The provisions of OMB Circular A-133 are effective for all audits of not-for-profit institutions for fiscal years that began on or after January 1, 1990.



The federal Office of Management and Budget issued a nonprofit compliance supplement to provide guidance for implementing OMB Circular A-133.

**Explanation of References:**

AEBP	Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> (as of March 31, 1991)
AC	Reference to section number in <i>FASB Accounting Standards Current Text</i>
ACNO	AICPA Audit and Accounting Guide <i>Audits of Certain Nonprofit Organizations</i>
ASLGU	AICPA Audit and Accounting Guide <i>Audits of State and Local Governmental Units</i>
AU	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
EITF	Emerging Issues Task Force pronouncement
ET	Code of Professional Conduct <i>AICPA Professional Standards</i> (vol. 2)
GA	Generally Accepted Accounting Practice
GAO	<i>Government Auditing Standards</i> (1988 Revision), United States General Accounting Office
GASB	<i>Codification of Governmental Accounting and Financial Reporting Standards</i> (as of May 31, 1990)
SOP	AICPA Statement of Position
QC	Quality Control Standards <i>AICPA Professional Standards</i> (vol. 2)
VHW	AICPA Audit and Accounting Guide <i>Audits of Voluntary Health and Welfare Organizations</i> (as of May 1, 1992)

## ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_  
 Partner \_\_\_\_\_ Date of Financial Statements \* \_\_\_\_\_  
 Manager \_\_\_\_\_ Date of Report \_\_\_\_\_  
 Concurring Reviewer \*\* \_\_\_\_\_ Date Report Released \_\_\_\_\_

The responsibility of this office involves reporting on:

- ( ) Financial statements (single entity)  
 ( ) Combined financial statements of financially interrelated not-for-profit organizations  
 ( ) Consolidated or combined financial statements of voluntary health and welfare organizations  
 ( ) Financial statements of a component of the organization  
 ( ) Special Reports (SAS No. 62)  
 ( ) Internal Control and Compliance (pursuant to OMB Circular A-133)  
 ( ) Other (explain) \_\_\_\_\_

Was the work performed at the request of another office? Yes\_\_\_ No\_\_\_

Date that the fee for the prior year's engagement was paid \_\_\_\_\_

Key data reported on by this office for this engagement:

Total revenues (memorandum total) .....	\$ _____
Total assets .....	\$ _____
Total fund balances .....	\$ _____
Total amount of federal assistance received *** .....	\$ _____

General description of audited entity (type of entity, services provided, etc.)

Complex or troublesome audit areas:

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner .....	_____	_____	_____	_____
Manager (or equivalent) .....	_____	_____	_____	_____
Concurring Reviewer ** .....	_____	_____	_____	_____
Senior .....	_____	_____	_____	_____
Other .....	_____	_____	_____	_____
Total this office .....	=====			
Total budgeted .....	_____			

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

\*\* Not applicable unless required by firm policy.

\*\*\* This amount should include "pass through" federal financial assistance received indirectly from a state or local government.

**LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER**

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewer; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, and V should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Date Engagement Review Performed \_\_\_\_\_

Reviewer \_\_\_\_\_

Date Checklist Reviewed  
by Team Captain \_\_\_\_\_

Signature \_\_\_\_\_

## Checklist for Review of Audit Engagements of Not-for-Profit Organizations

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NOTE: This checklist has been updated through SAS No. 71, SFAS No. 109, FASB Interpretation No. 38, and the GAO's *Government Auditing Standards* (1988 Revision).

## I. REPORT AND FINANCIAL STATEMENTS\*

**NOTE:** This condensed checklist has been extracted from the AICPA financial reporting aid, *Disclosure Checklists for Nonprofit Organizations*. Reviewers may wish to consult that checklist for detailed information about the applicable professional standards and related citations. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm's checklist is current, comprehensive, and appropriate for the engagement.

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Auditor's Report**</b>					
Is the report dated in conformity with the requirements of professional standards? (AU Secs. 504.15-.17, 508.08 and .74 and 530)	A101	_____	_____	_____	_____
Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards? (AU Secs. 508.08-.10 and 623)	A102	_____	_____	_____	_____
Does the report cover all periods for which financial statements are presented? (AU Sec. 508.74)	A103	_____	_____	_____	_____
If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)	A104	_____	_____	_____	_____
If supplemental information accompanies the basic financial statements, does the auditor describe in his report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)	A105	_____	_____	_____	_____
For special reports, have professional standards been complied with regarding:					
Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (AU Sec. 623.02-.10)	A106	_____	_____	_____	_____
Specified elements, accounts or items of a financial statement? (AU Secs. 622 and 623.11-.18)	A107	_____	_____	_____	_____
Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? (AU Sec. 623.19-.21)	A108	_____	_____	_____	_____
Financial presentations to comply with contractual agreements or regulatory provisions? (AU Sec. 623.22-.30)	A109	_____	_____	_____	_____
Financial information that requires a prescribed form of auditor's report? (AU Sec. 623.32-.33)	A110	_____	_____	_____	_____
For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with professional standards? (AU Sec. 534)	A111	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Financial Statements and Notes</b>					
<b>General</b>					
Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	A112	_____	_____	_____	_____
Is the presentation appropriate and disclosure adequate regarding:					
Significant accounting policies, including a description of the nature of each fund, if applicable (i.e., general, plant, endowment, unrestricted, temporarily restricted, permanently restricted)? (AC Sec. A10.105-.108)	A113	_____	_____	_____	_____
Accounting changes? (AC Sec. A06)	A114	_____	_____	_____	_____
Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed? (AC Sec. F25.112 and .115)	A119	_____	_____	_____	_____
If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in accordance with generally accepted accounting principles? (AU Sec. 508.76, footnote 27)	N101	_____	_____	_____	_____
Are nonmonetary transactions properly accounted for and disclosed? (AC Secs. N35 and C11)	A125	_____	_____	_____	_____
With respect to contingencies and commitments:					
Are loss contingencies disclosed and/or accrued as appropriate? (AC Sec. C59.104-.114)	A126	_____	_____	_____	_____
Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	A127	_____	_____	_____	_____
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Sec. 560.03-.09 and 561)	A128	_____	_____	_____	_____
Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)	A129	_____	_____	_____	_____
Are all other pension plans adequately disclosed?	A130	_____	_____	_____	_____
Is the required information on defined benefit postretirement plans adequately disclosed? (AC Sec. P40.169)	A131	_____	_____	_____	_____
Are postemployment health care and life insurance benefits under FAS No. 81 and FASB Technical Bulletin 87-1 properly disclosed? (AC Sec. P50.102-.103)	A132	_____	_____	_____	_____
If the financial statements represent a component, such as a chapter of an existing organization, a separate operation, a separate fund, or a grant, do the financial statements or footnotes disclose the following (ACNO, Ch. 8, p. 52):					
Existence and nature of affiliated or related entities? (ACNO, Ch. 8, p. 52)	N102	_____	_____	_____	_____
Nature and volume of material transactions (individually or in the aggregate) with related entities? (ACNO, Ch. 8, p. 52)	N103	_____	_____	_____	_____
Allocations of common expenses? (ACNO, Ch. 8, p. 52)	N104	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Are related party transactions with non-combined affiliated entities, contributors of restricted funds, board members, officers, and employees adequately disclosed? (SOP 78-10, par. 47)	N105	_____	_____	_____	_____
If appropriate, are the financial statements prepared on a fund accounting basis and adequate disclosures made of the following (SOP 78-10, pars. 15 and 20-24):					
Unrestricted resources? (SOP 78-10, par. 63)	N106	_____	_____	_____	_____
Resources restricted by the donor? (SOP 78-10, pars. 54-62)	N107	_____	_____	_____	_____
<b>Balance Sheet</b>					
Is the presentation appropriate and disclosure adequate regarding:					
Segregation of assets and liabilities into current and noncurrent classifications (if only unrestricted funds exist, a segregated balance sheet is recommended, but not required, by SOP 78-10)?	A138	_____	_____	_____	_____
Valuation allowances? (AC Sec. V18)	A139	_____	_____	_____	_____
Cash? (AC B05.107 and C59.120)	N108	_____	_____	_____	_____
Investments? (AC Sec. I82.109-.110; I89.101-.107 and FAS No. 107.10-.14)	A149	_____	_____	_____	_____
Terms or circumstances concerning repurchase or reverse repurchase agreements? (SOP 85-2, par. 13)	N109	_____	_____	_____	_____
Accounts and Notes Receivable:					
Effect of interest rates which do not reflect market rates? (AC Sec. I69.109)	A145	_____	_____	_____	_____
Legally enforceable pledges? (SOP 78-10, pars. 64-66: VHW, p. 18)	N110	_____	_____	_____	_____
Interfund receivables? (SOP 78-10, pars. 118-119)	N111	_____	_____	_____	_____
Other receivables?	A147	_____	_____	_____	_____
Inventories? (AC Secs. B05.105 and I78)	A148	_____	_____	_____	_____
Collections of works of art and similar items? (AC Secs. D 40.101-.102A and 5.101-.103 and ACNO, p. 32)	N112	_____	_____	_____	_____
Fixed Assets:					
Purchased fixed assets? (SOP 78-10, par. 105 and VHW, p. 10)	N113	_____	_____	_____	_____
Donated fixed assets? (SOP 78-10, par. 105 and VHW, pp. 10-11)	N114	_____	_____	_____	_____
Accounting for depreciation, including disclosure of depreciation policy for inexhaustible assets? (SOP 78-10, pars. 106-112 and VHW, pp. 11-13)	N115	_____	_____	_____	_____
Major classes of depreciable assets?	N116	_____	_____	_____	_____
Accumulated depreciation, as well as a general description of the method used in computing depreciation?	N117	_____	_____	_____	_____
Capitalized interest? (AC Sec. I67)	N118	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Restrictions on use or disposal imposed by donor? (SOP 78-10, pars. 59-62)	N119	_____	_____	_____	_____
Sales-type, direct financing, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)	A151	_____	_____	_____	_____
Other assets including intangible assets, deferred tax assets and deferred charges? (AC Secs. I60, Co 2.106-.110, I24 and I25)	A152	_____	_____	_____	_____
Pledged assets? (AC Sec. C59.120)	A153	_____	_____	_____	_____
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	A154	_____	_____	_____	_____
Current liabilities? (AC Sec. B05.108-.109 and .118)	A155	_____	_____	_____	_____
Short-term liabilities expected to be refinanced? (AC Sec. B05.112-.117 and .138-.139)	A156	_____	_____	_____	_____
Notes payable and other debts:					
Maturities and rates? (AC Sec. C32.105)	A157	_____	_____	_____	_____
Effect of interest rates which do not reflect market rates? (AC Sec. I69)	A159	_____	_____	_____	_____
Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	A162	_____	_____	_____	_____
Interfund payables? (SOP 78-10, pars. 118-119)	N120	_____	_____	_____	_____
Capital leases of lessees? (AC Sec. L10.106 and .112)	A163	_____	_____	_____	_____
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees, and deferred revenue and support? (AC Secs. I24, I25 and C44.104 and .108 and FAS No. 109.43-.44)	A164	_____	_____	_____	_____
<b>Activity Statement</b>					
Are unrestricted revenues, expenses, and fund balances clearly distinguishable from restricted items? (SOP 78-10, pars. 20 and 63 and VHW, p. 2)	N121	_____	_____	_____	_____
If the organization receives significant support from contributions from the general public, are all expenses presented on a functional basis (i.e., indicating costs of each program and supporting activity)? (SOP 78-10, pars. 85-86 and VHW, p. 27)	N122	_____	_____	_____	_____
Does the Activity Statement include all the funds of the organization? (SOP 78-10, pars. 26 and 87)	N123	_____	_____	_____	_____
Is the presentation appropriate and disclosure adequate regarding:					
Service fees, such as subscription and membership income? (SOP 78-10, par. 84)	N124	_____	_____	_____	_____
Sales of publications and other items? (SOP 78-10, par. 84)	N125	_____	_____	_____	_____
Third-party reimbursements of costs of program activities? (ACNO, Ch. 3, pp. 14-15)	N126	_____	_____	_____	_____



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Investment income? (SOP 78-10, pars. 72-74)	N127	_____	_____	_____	_____
Capital gains and losses from investments, both realized and unrealized, and the related tax effects, if any? (SOP 78-10, pars. 80-83 and p. 141)	N128	_____	_____	_____	_____
Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?	N129	_____	_____	_____	_____
Contributions? (SOP 78-10, par. 28)	N130	_____	_____	_____	_____
Donated services, materials and facilities? (SOP 78-10, pars. 67-71)	N131	_____	_____	_____	_____
Gifts of future interests? (ACNO, Ch. 4, p. 25 and SOP 78-10, par. 121)	N132	_____	_____	_____	_____
Other gifts, grants, pledges, etc.? (SOP 78-10, pars. 64 and 101)	N133	_____	_____	_____	_____
Interfund transfers? (ACNO, Ch. 6, p. 34 and SOP 78-10, pars. 118-119)	N134	_____	_____	_____	_____
Other revenue or capital additions? (ACNO, Ch. 4, p. 17 and SOP 78-10, pars. 51-53)	N135	_____	_____	_____	_____
Allocation of functional expenses to programs and supporting services? (SOP 78-10, pars. 97 and 100 and VHW, Ch. 6 and SOP 87.10, par. 22)	N136	_____	_____	_____	_____
Fund-raising expenses, including joint costs of informational materials and activities allocated between fund raising and other functional expense categories? (SOP 78-10, pars. 92-97 and VHW Ch. 6, p. 26)	N137	_____	_____	_____	_____
Depreciation? (AC Sec. D40.105)	A179	_____	_____	_____	_____
Deferred compensation agreements? (AC Sec. C38)	A181	_____	_____	_____	_____
Grants to other organizations? (SOP 78-10, pars. 101-102)	N138	_____	_____	_____	_____
Remittances to national organizations? (SOP 78-10, par. 90 and VHW, p.29)	N139	_____	_____	_____	_____
Extraordinary and unusual items? (AC Sec. I17)	A192	_____	_____	_____	_____
Prior period adjustments? (AC Secs. A35.103 and C35.107)	N140	_____	_____	_____	_____
Operating leases and rent expense of lessees? (AC Sec. L10.112)	A184	_____	_____	_____	_____

#### Additional Financial Statements

For not-for-profit organizations accounted for under SOP 78-10, is a statement of changes in financial position or cash flows presented as a basic financial statement for each period for which an activity statement and balance sheet are presented? (AC Sec. F40.101 and SOP 78-10, par. 17, Appendix C)

N141 \_\_\_\_\_

If a statement of changes in financial position was presented, does it disclose all important aspects of financing and investing activities? (AC Sec. F40.101-102 and SOP 78-10, pars. 32-34)

N142 \_\_\_\_\_

For voluntary health and welfare organizations, is a statement of functional expenses presented as a basic financial statement for each period for which an activity statement is presented? (VHW, Ch. 6, Exhibit B)

N143 \_\_\_\_\_

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If a statement of cash flows was presented, does it disclose:					
Cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.122)	A195	_____	_____	_____	_____
The net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)	A196	_____	_____	_____	_____
Does it provide a reconciliation between excess of revenue over expenditures and net cash flow from operating activities? (AC Sec. C25.126)	A197	_____	_____	_____	_____
Noncash investing and financing activities? (AC Sec. C25.134)	A198	_____	_____	_____	_____
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.132)	A199	_____	_____	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity value of three months or less? Is the enterprise's policy for determining which items are treated as cash equivalents disclosed?	A200	_____	_____	_____	_____
Do components of the financial statements appear to have been shown at "gross" and not "net" value? (AC Sec. C25.109-.111A)	A202	_____	_____	_____	_____
<b>Other</b>					
Are the statements formats and disclosures generally consistent with the appropriate industry audit guides and statements of position?	A203	_____	_____	_____	_____

## II. GENERAL AUDIT PROCEDURES

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>In planning the audit engagement, did the auditor properly consider:</b>					
Matters affecting the environment in which the entity operates, such as accounting practices, economic conditions, laws and governmental regulations, contractual obligations and technological changes? (AU Secs. 311.03 and 801.11)	A204	_____	_____	_____	_____
Matters affecting the entity's operations, such as legal organization and types of services? (AU Sec. 311.03-.04)	A205	_____	_____	_____	_____
Preliminary judgment about materiality levels for audit purposes? (AU Secs. 311.03 and 312.08)	A206	_____	_____	_____	_____
<b>Did the auditor:</b>					
Make an assessment of the risk of material misstatements of the financial statements, including those resulting from inadequate control of contributions and violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts? (AU Secs. 312.12 and 316.05)	A207	_____	_____	_____	_____
Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12)	A208	_____	_____	_____	_____
Design the audit to provide reasonable assurance of detecting errors and irregularities and direct effect illegal acts that are material to the financial statements? (AU Sec. 316.05)	A209	_____	_____	_____	_____
Did the auditor use appropriate analytical procedures in planning the nature, timing and extent of other audit procedures? (AU Sec. 329.01 and .06)	A210	_____	_____	_____	_____
<b>If the auditor succeeded a predecessor auditor, did the auditor:</b>					
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)	A211	_____	_____	_____	_____
Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.06)	A212	_____	_____	_____	_____
Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor's working papers? (AU Sec. 315.08)	A213	_____	_____	_____	_____
<b>Did the auditor:</b>					
Obtain a sufficient understanding of the entity's internal control structure to plan the audit? (AU Sec. 319.16)	A215	_____	_____	_____	_____
Document the understanding of the internal control structure? (AU Sec. 319.16)	A216	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level? (AU Sec. 319.39)	A217	_____	_____	_____	_____
Document the basis of the conclusion (i.e., tests of control) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)	A218	_____	_____	_____	_____
If the methods used by the client to process significant accounting information includes the use of a service organization, was consideration given to the internal controls of the accounting applications, if any, at the service organization? (AU Sec. 311.03)	A219	_____	_____	_____	_____
If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report obtained and appropriately considered, or test performed by the auditor at the service organization? (AU Sec. 324.05 and .10)	A220	_____	_____	_____	_____
Was an appropriately tailored, written audit program prepared? (AU Sec. 311.05 and applicable AICPA Industry Audit Guides)	N201	_____	_____	_____	_____
Was the audit program responsive to the needs of the engagement and the understanding of the internal control structure obtained, during the planning process? (AU Sec. 319.02 and .05)	A226	_____	_____	_____	_____
Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (AU Sec. 326.09-.13)	A227	_____	_____	_____	_____
If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU Sec. 311.05)	A228	_____	_____	_____	_____
Have all procedures called for in the audit program been signed? (AU Sec. 339)	A229	_____	_____	_____	_____
If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):					
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the compliance test, tolerable rate, allowable risk of overreliance, and likely rate of deviations? (AU Sec. 350.31)	A230	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)	A231	_____	_____	_____	_____
Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures? (AU Secs. 350.40-.43)	A232	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing? (AU Sec. 350.40)	A233	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A234	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If statistical or nonstatistical sampling was used for substantive tests of details:					
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatements, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)	A235	_____	_____	_____	_____
Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.24)	A236	_____	_____	_____	_____
Were the misstatement results of the sample projected to the items from which the sample was selected? (AU Sec. 350.26)	A237	_____	_____	_____	_____
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed? (AU Sec. 350.25)	A238	_____	_____	_____	_____
In the evaluation of whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatement results from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)	A239	_____	_____	_____	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A240	_____	_____	_____	_____
During the performance of the engagement, did the auditor:					
Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests? (AU Sec. 329)	A241	_____	_____	_____	_____
Use analytical procedures in the overall review stage of the audit? (AU Sec. 329.01)	A242	_____	_____	_____	_____
Has the auditor evaluated the reasonableness of accounting estimates made by management? <sup>1</sup> (AU Secs. 326.23 and 342)	A243	_____	_____	_____	_____
Did the auditor obtain a timely and appropriate letter of representation from management? (AU Secs. 333.01 and 801.19)	A244	_____	_____	_____	_____
Did the auditor obtain timely and appropriate responses from the entity's attorney concerning litigation, claims, and assessments? (AU Sec. 337.06)	A245	_____	_____	_____	_____
Have all questions, exceptions, or notes, posed during the audit been followed up and resolved, including consideration of the views obtained from responsible officials of the organization, program, activity, or function audited concerning the auditor's findings, conclusions, and recommendations?	N202	_____	_____	_____	_____
Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)	A247	_____	_____	_____	_____

<sup>1</sup> The auditor has this responsibility under AU Sec. 326, but has been given more specific guidance in AU Sec. 342.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>During the performance of the engagement, did the auditor:</b>					
Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.24-.29)	A248	_____	_____	_____	_____
Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 316.25)	A249	_____	_____	_____	_____
Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement? (AU Sec. 316.28)	A250	_____	_____	_____	_____
<b>When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:</b>					
Follow up on illegal acts having a direct and material effect on the financial statements and on all other illegal acts in accordance with professional standards? (AU Secs. 316.24-.28 and 317.10)	A251	_____	_____	_____	_____
Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of the client's representations? (AU Sec. 317.16)	A252	_____	_____	_____	_____
Communicate directly with the audit committee if the illegal act involved senior management, document that communication and obtain assurance that all illegal acts that came to the auditor's attention are adequately communicated? (AU Sec. 317.17)	A253	_____	_____	_____	_____
Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?	A254	_____	_____	_____	_____
If the auditor believed that there was substantial doubt about the entity's ability to continue for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented? (AU Sec. 341.03(b))	A255	_____	_____	_____	_____
If the auditor's substantial doubt was alleviated, did the notes to the financial statements adequately disclose the principal conditions and events, the possible effects, and any mitigating factors, including management's plans? (AU Sec. 341.03(c))	A256	_____	_____	_____	_____
If the auditor's substantial doubt was not eliminated, did the auditor's report include an explanatory paragraph which adequately communicates the auditor's substantial doubt (e.g., includes the terms "substantial doubt" and "going concern")? (AU Sec. 341)	A257	_____	_____	_____	_____
<b>During the performance of the engagement:</b>					
If there were reportable conditions identified, were they communicated to the audit committee, management and others within the organization on a timely basis (if the communication was oral, was it documented in the working papers)? (AU Sec. 325.09)	A258	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Does the auditor's conclusions in the working papers regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Section 325)	A259	_____	_____	_____	_____
If a report was issued on reportable conditions did it: indicate the purpose of the audit, include the definition of reportable conditions and include the restriction on distribution? (AU Sec. 325.11)	A260	_____	_____	_____	_____
If a letter was issued that did not include reportable conditions did it omit an opinion that there were no reportable conditions? (AU Sec. 325.17)	A261	_____	_____	_____	_____
If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards, in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)	A265	_____	_____	_____	_____
If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 390)	A266	_____	_____	_____	_____
Where there is a formal oversight committee, did the auditor:					
Ensure that the appropriate matters have been communicated to those who have responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)	A267	_____	_____	_____	_____
If the communication was in writing, prepare a written report that includes a statement that the communication is intended solely for the use of the audit committee or the board of directors and, if appropriate, management? (AU Sec. 380.01-.02)	A268	_____	_____	_____	_____
If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers? (AU Sec. 380.03)	A269	_____	_____	_____	_____

## III. AUDITS OF GOVERNMENTAL GRANTEEES

NOTE: These questions are derived from the statement on Auditing Standards No. 63, the U.S. General Accounting Office's *Government Auditing Standards* (1988 Revision), and the Office of Management and Budget Circular A-133. Reviewers may wish to consult these documents for more detailed information on standards concerning the audits of governmental grantees.

References to professional and governmental pronouncements have been provided in this section because of recent significant changes in governmental reporting and auditing. The term "GAO" followed by the chapter and paragraph refers to *Government Auditing Standards* (1988 Revision).

Questions found in this section have been excerpted from the *Checklist for Review of State and Local Government Entities* Appendices A & B. These questions can be found within the two consecutive sections in the Audit Summary starting on page 6115.

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Does the engagement letter, proposal or contract, if such documents were prepared, include a statement as to what type of engagement is being performed and whether the engagement is intended to meet governmental oversight agency's audit requirements?	G250	_____	_____	_____	_____
If the auditor became aware that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement, did the auditor communicate to management and the audit committee (or others with equivalent authority) that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory to contractual requirements? (Communication may be oral or in writing—if the communication is oral the auditor should document the communication in the working papers)	G257	_____	_____	_____	_____
Does the language in the auditor's reports conform with professional standards (optional for reports on basic financial statements), including references to <i>Government Auditing Standards</i> (GAO, Ch. 5, par. 3 and SOP 92-7, Ch. 6, Appendix D, par. D-2) and appropriately cover the following for the entity as a whole:	G402	_____	_____	_____	_____
The financial statements? (OMB Circular A-133, item 15c(i))	N301	_____	_____	_____	_____
The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements that includes, when appropriate (GAO, ch. 5, par. 17 and AU Sec. 801.30 and SOP 89-6):	G402	_____	_____	_____	_____
The controls that were evaluated? (SOP 89-6, Example 25 and GAO, ch. 5, pars. 21-22)	G403	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing identified nonreportable conditions? (GAO, Ch. 5, par. 25)	G404	_____	_____	_____	_____
Which matters are reportable conditions and which of the reportable conditions are material weaknesses? (GAO, Ch. 5, pars. 17 and 23)	G405	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist.



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indications of illegal acts that includes, when appropriate (AU Sec. 801.18, and GAO, Ch. 5, par. 5)	G406	_____	_____	_____	_____
A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations? (AU Sec. 801.26 and GAO, Ch. 5, par. 6)	G407	_____	_____	_____	_____
Presentation of material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding issuance of a report on compliance? (GAO, Ch. 5, par. 5 and AU Sec. 801.27-.30)	G408	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing immaterial instances of noncompliance? (AU Sec. 801.30 and GAO, Ch. 5, par. 8)	G409	_____	_____	_____	_____
When illegal acts involve funds received from other governmental entities did the auditor assure himself/herself that the audited entity notified the proper officials, of the entities, within a reasonable time? If the entity did not, or was unable to do so because the top official was involved, has the auditor reported these acts to the officials of those other governmental entities? (GAO, Ch. 5, par. 13 and AU Sec. 801.32)	G410	_____	_____	_____	_____
Do the Single Audit Act Reports also include:					
Auditor's report on the schedule of federal financial awards? (ASLGU, ch. 17, par. 29 and Ch. 23, par. 1)	G502	_____	_____	_____	_____
Auditor's report on the internal control structure used in administering federal awards in order to ensure that the entity's internal control structure was designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including (SOP 89-6, Example 26):	N303	_____	_____	_____	_____
The controls that were evaluated (considered and tested)? (OMB Circular A-133, 15c(2))	N304	_____	_____	_____	_____
The controls that were not evaluated (tested)? (OMB Circular A-133, 15c(3))	N305	_____	_____	_____	_____
The material weaknesses identified as a result of the evaluation (considered and tested)? (OMB Circular A-133, 15c(3))	N306	_____	_____	_____	_____
<b>Major Programs—compliance report—specific requirements:</b>					
An opinion that the entity complied, in all material respects, with <u>specific</u> requirements that, if not complied with, could have a material effect? (AU Sec. 801.80)	G507	_____	_____	_____	_____
<b>Nonmajor Programs—compliance report—specific requirements:</b>					
A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs? (AU Sec. 801.89)	G508	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Major and Nonmajor Programs—compliance auditing—general requirements:</b>					
A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements relating to major programs? (AU Sec. 801.51 e-f)	G509	_____	_____	_____	_____
When appropriate, did the auditor issue either a qualified or adverse report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding reporting on performance audits? (AU Sec. 801.51g and .79)	G510	_____	_____	_____	_____
If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefor, and the known effect of not following the standard on the audit results? (GAO, Ch. 5, par. 4)	G411	_____	_____	_____	_____
When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts? (AU Sec. 801.32)	G412	_____	_____	_____	_____
Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (AU Sec. 801.20)	G413	_____	_____	_____	_____
Did the auditor document his/her communication of those nonreportable conditions in the internal control structure not included in the required reports? (AU Sec. 801.38-.39, and GAO, Ch. 5, par. 25)	G414	_____	_____	_____	_____
If the entity is subject to OMB Cir. A-133 did the auditor include a description of all instances of noncompliance in the audit reports or include a reference to a separate communication?	N307	_____	_____	_____	_____
If a separate communication was prepared to report on instances of immaterial noncompliance, was the communication to the institution in writing?	N308	_____	_____	_____	_____
If required by contractual obligations, were findings presented in accordance with the guidance in the <i>Government Auditing Standards</i> regarding reporting on performance audits? (GAO, Ch. 7)	G415	_____	_____	_____	_____
Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope? (AU Sec. 801.56 and ASLGU, Ch. 21, par. 31)	G511	_____	_____	_____	_____
Does the schedule of federal award program expenditures present the following (ASLGU, Ch. 23, par. 7):					
Identification of each program as indicated in the <i>Catalog of Federal Domestic Assistance</i> (CFDA)?	G512	_____	_____	_____	_____
Other federal assistance from programs not included in the CFDA?	G513	_____	_____	_____	_____
Total expenditures for each federal award program by grantor, department, or agency?	G514	_____	_____	_____	_____
Total federal award expenditures?	G515	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Other information, either required by federal program managers or otherwise deemed appropriate?	G516	_____	_____	_____	_____
Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-133 (Audits of Institutions of Higher Education and Other Non-Profit Institutions), A-21 (Cost Principles for Educational Institutions) and A-110 (Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations)?	G517	_____	_____	_____	_____
Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance? (AU Sec. 801.20, fn. 10 and GAO, Ch. 3, par. 41)	G518	_____	_____	_____	_____
Did the auditor perform the required level of internal control structure review, to include:					
The consideration and testing of those internal control structure policies and procedures, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if the auditor intended to assess control risk below the maximum level? (SOP 90-9, par. 9)	G519	_____	_____	_____	_____
If warranted, the study and evaluation of the systems, used in administering non-major programs, to the same extent as in Question G519 above so that controls over at least 50 percent of total federal financial assistance program expenditures are studied and evaluated? (SOP 90-9, par. 10)	G520	_____	_____	_____	_____
A sufficient understanding of the internal control structure for the systems used in administering other non-major federal financial assistance programs? (ASLGU, Ch. 21, par. 13)	G521	_____	_____	_____	_____
For the categories of controls for which the test of controls were performed:					
Do the working papers document the auditor's understanding of the systems? (AU Sec. 319.26)	G522	_____	_____	_____	_____
In the judgment of the reviewer, were the nature and extent of tests of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described? (AU Sec. 319)	G523	_____	_____	_____	_____
Did the auditor include the recipient's system for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports? (AU Sec. 801.74-.75)	G524	_____	_____	_____	_____
Do the working papers adequately document the work performed and the conclusions reached? (AU Sec. 319)	G525	_____	_____	_____	_____
In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:					
Consult appropriate sources, such as the Compliance Supplement for Audits of Institutions and Other Non-profit Organizations (revised October 1991), statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (AU Sec. 801.58-.62)	G526	_____	_____	_____	_____
Consider materiality in relation to each major federal assistance program? (AU Sec. 801.57)	G527	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Select a representative number of charges from each major program? (ASLGU, Ch. 22, par. 4)	G528	_____	_____	_____	_____
Perform and document tests to determine whether (AU Sec. 801.58):					
The amounts reported as expenditures were allowable under federal regulations and contracts? (AU Sec. 801.58a)	G529	_____	_____	_____	_____
Only eligible persons or organizations received services or benefits? (AU Sec. 801.58b)	G530	_____	_____	_____	_____
Matching requirements were met? (AU Sec. 801.58c)	G531	_____	_____	_____	_____
Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements? (AU Sec. 801.58d and ASLGU, Ch. 22, par. 24)	G532	_____	_____	_____	_____
The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program? (AU Sec. 801.58e)	G533	_____	_____	_____	_____
Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning (AU Sec. 801.47 and GAO, Ch. 4, par. 22):					
Political activity? (AU Sec. 801.47a)	G534	_____	_____	_____	_____
Civil rights? (AU Sec. 801.47c)	G535	_____	_____	_____	_____
Davis-Bacon Act? (AU Sec. 801.47b)	G536	_____	_____	_____	_____
Cash management? (AU Sec. 801.47d)	G537	_____	_____	_____	_____
Relocation of assistance and real property acquisition? (AU Sec. 801.47e)	G538	_____	_____	_____	_____
Federal financial reports? (AU Sec. 801.47f)	G539	_____	_____	_____	_____
Allowable costs/costs principles? (AU Sec. 801.47g)	G540	_____	_____	_____	_____
Drug-free workplace act? (AU Sec. 801.47h)	G541	_____	_____	_____	_____
Administrative requirements? (AU Sec. 801.47i)	G542	_____	_____	_____	_____
Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (AU Sec. 801.76-.79)	G543	_____	_____	_____	_____
Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance? (AU Sec. 801.53 and .87)	G544	_____	_____	_____	_____
Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs? (OMB Cir. A-128, Questions and Answers, par. 20)	G545	_____	_____	_____	_____
Where transactions related to non-major federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific requirements that apply to the individual transactions so tested? (AU Sec. 801.87 and .90)	G546	_____	_____	_____	_____
If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (ASLGU, Ch. 21, pars. 40—41)	G547	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do the working papers include a cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer and include documentation of supervisory review? (GAO, Ch. 4, par. 22)	G416	_____	_____	_____	_____
Are appropriate personnel in compliance with the 1988 Yellow Book CPE requirements? (GAO, Ch. 3, pars. 6-9 and Ch. 4, par. 22c and GAO, "Interpretation of Continuing Education and Training Requirements")	G417	_____	_____	_____	_____
Was appropriate assurance of independence considered on three levels: personal, external and organizational and did the auditor maintain an independent attitude and appearance? (GAO, Ch. 3, pars. 11-25)	G418	_____	_____	_____	_____
<u>Program Specific Audits</u>					
Where an auditor has been engaged to conduct a program specific audit, did the auditor obtain an understanding of the audit requirements for that particular program?	G420	_____	_____	_____	_____
Did the auditor submit the report(s) to the organization audited within the required time? (GAO, Ch. 5, par. 34)	N309	_____	_____	_____	_____
Has the auditor established policies or procedures for complying with the additional requirements concerning (ASLGU, Ch. 21, par. 27):					
Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?	G549	_____	_____	_____	_____
Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?	G550	_____	_____	_____	_____

## IV. WORKING PAPER AREAS

**NOTE:** In the key audit areas reviewed, the reviewer should evaluate whether the reviewed firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements as described in AU Sec. 326. The questions contained in each section represent some of the audit procedures or tests that the reviewed firm might have undertaken to form conclusions in support of financial statement assertions of material significance. If an audit area is not reviewed because it does not represent a key audit area for that engagement, the reviewer should place an "X" in the box below the name of the working paper area. (As indicated on page 5603, the reviewer should indicate the reason for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" below the area.)

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Cash</b>					
<input type="checkbox"/> Not a key area.					
Were bank accounts confirmed and were reconciling items cleared by reference to subsequent statements obtained directly from the bank (or obtained from the client and appropriately tested)?	A301	_____	_____	_____	_____
Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period? (AU Secs. 313.07 and 560.10-.11)	A302	_____	_____	_____	_____
Do the working papers indicate that the following were considered:					
Restrictions on cash balances?	A303	_____	_____	_____	_____
Confirmation of bank credit arrangements such as compensating balances?	A304	_____	_____	_____	_____
Confirmation of liabilities and contingent liabilities to banks?	A305	_____	_____	_____	_____
Authorization for interfund cash transactions?	N401	_____	_____	_____	_____
Determination that all cash accounts have been identified and appropriately recorded? (ACNO, ch. 6, p. 34)	N402	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of cash appear adequate? (AU Sec. 319)	A306	_____	_____	_____	_____
<b>Receivables</b>					
<input type="checkbox"/> Not a key area.					
Were accounts, pledges and grant receivables confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330.24-.30)	A307	_____	_____	_____	_____
If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?	A308	_____	_____	_____	_____
If a significant number and amount of accounts, pledges and grant receivables were not confirmed, is there evidence that other auditing procedures were performed? (AU Sec. 330.32)	A309	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were significant notes receivable confirmed as of the balance sheet date?	A310	_____	_____	_____	_____
Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers? (AU Sec. 330.33)	A311	_____	_____	_____	_____
Was collateral (if any) for receivables examined with respect to existence, ownership and value?	A312	_____	_____	_____	_____
Were procedures performed to provide evidence that pledged receivables are properly recorded in the appropriate funds? (ACNO, Ch. 5, p. 31)	N403	_____	_____	_____	_____
Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered? (AU Sec. 312.29)	A314	_____	_____	_____	_____
Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?	A315	_____	_____	_____	_____
Was receivable work coordinated with tests of support and revenue, including cut-off tests?	A316	_____	_____	_____	_____
Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?	A317	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of receivables appear adequate? (AU Sec. 319)	A318	_____	_____	_____	_____
<b>Inventories</b>					
<input type="checkbox"/> Not a key area.					
Do the working papers indicate that there were adequate tests of:					
Physical observation, if material?	N404	_____	_____	_____	_____
The clerical accuracy of the inventory?	A324	_____	_____	_____	_____
Costing or valuation methods and substantiation of costs/values used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?	A325	_____	_____	_____	_____
Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?	A326	_____	_____	_____	_____
Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?	A328	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of inventory appear adequate? (AU Sec. 319)	A333	_____	_____	_____	_____
<b>Investments</b>					
<input type="checkbox"/> Not a key area.					
Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during the period, income, market value, etc., of investments?	A334	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were securities either examined or confirmed? (AU Sec. 332.04)	A335	_____	_____	_____	_____
When investments are held by an outside custodian, who is authorized by the client to execute transactions without specific authorization of individual transactions, did the auditor consider the guidance in professional standards? (AU Sec. 324.16 and .18)	N405	_____	_____	_____	_____
Do the working papers reflect consideration of changes in the carrying value of marketable securities and other investments and the appropriateness of unrealized gains and losses that were recognized? (SOP 78-10, pars. 79-81)	N406	_____	_____	_____	_____
Was the computation of realized gains and losses properly tested by the auditor?	A336	_____	_____	_____	_____
Do the working papers indicate tests of the unit market value calculations of pooled investment funds, including the propriety of handling additions to and withdrawals from the pool? (SOP 78-10, par. 116)	N407	_____	_____	_____	_____
Were income and realized and unrealized gains and losses from investments examined for proper allocation to the individual funds? (SOP 78-10, par. 116)	N408	_____	_____	_____	_____
Do the working papers indicate that consideration was given to indications that investments were pledged, restricted, or had limitations on immediate use? (SOP 78-10, pars. 64-66 and VHW, ch. 2, p. 8)	N409	_____	_____	_____	_____
Do the working papers indicate that risk of loss on repurchase agreements was properly considered? (SOP 85-2, par. 13, GASB Secs. 150.158 and R10.110-.112)	N410	_____	_____	_____	_____
Do the working papers indicate that repurchase security transactions were reviewed for consistency with the disclosures of the terms or circumstances of the transactions? (SOP 85-2, par. 13 and GASB Secs. 150.159-.162 and R10.110-.112)	N411	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of investments appear adequate?	A342	_____	_____	_____	_____
<b>Prepaid Expenses, Intangible Assets, Deferred Charges, etc.</b>					
<input type="checkbox"/> Not a key area.					
Were adequate tests made and/or confirmations received for all material:					
Prepaid expenses?	A343	_____	_____	_____	_____
Intangible assets?	A344	_____	_____	_____	_____
Deferred charges?	A345	_____	_____	_____	_____
Other?	A346	_____	_____	_____	_____
Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?	A347	_____	_____	_____	_____
If insurance policies were pledged as collateral or subjected to premium financing, did the auditor consider whether accounting for such loans was appropriate?	A349	_____	_____	_____	_____



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate?	A350	_____	_____	_____	_____
<b>Collections of Works of Art and Similar Items</b>					
<input type="checkbox"/> Not a key area.					
If the collection has been capitalized, do the working papers indicate that the auditor tested the reasonableness of the collection's carrying value? (SOP 78-10, pars. 113-114 and ACNO, p. 32)	N412	_____	_____	_____	_____
If a capitalized collection is considered exhaustible, do the working papers indicate that the auditor tested the reasonableness of the related amortization? (SOP 78-10, pars. 107-108 and 115)	N413	_____	_____	_____	_____
Whether or not the collection was capitalized, are the tests adequate with respect to acquisitions and deaccessions? (SOP 78-10, par. 114 and ACNO, p. 32)	N414	_____	_____	_____	_____
If the collection is capitalized:					
Were physical inventories observed at all locations where relatively large amounts are located? (ACNO, ch. 5, p. 32)	N415	_____	_____	_____	_____
Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the quantities reflected in the final inventory)? (ACNO, ch. 5, p. 32)	N416	_____	_____	_____	_____
If the collection is considered inexhaustible and has not been capitalized, do the working papers indicate that the auditor:					
Evaluated the internal controls over the collection? (ACNO, p. 32)	N417	_____	_____	_____	_____
Observed a physical inventory at all locations where relatively large amounts are located? (ACNO, p. 32)	N418	_____	_____	_____	_____
<b>Property and Equipment</b>					
<input type="checkbox"/> Not a key area.					
Was a summary schedule by source prepared (or obtained) to show beginning balances, changes during the period and ending balances for:					
Property and equipment?	A351	_____	_____	_____	_____
Accumulated depreciation?	A352	_____	_____	_____	_____
Do tests appear adequate and were proper conclusions drawn with respect to:					
Additions (by the examination of supporting documents and/or physical inspection)?	A353	_____	_____	_____	_____
Retirements, etc. (including examination of miscellaneous income, scrap sales)?	A354	_____	_____	_____	_____
The adequacy of current and accumulated provisions for depreciation and depletion?	A355	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Valuation of assets not previously capitalized? (ACNO, ch. 5, p. 31)	N419	_____	_____	_____	_____
Do the working papers indicate that the auditor considered the possibility that property was subject to liens?	A357	_____	_____	_____	_____
Was a review made to determine that capital expenditures are classified in the proper fund accounts? (ACNO, ch. 6, p. 36)	N420	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate? (AU Sec. 319)	A358	_____	_____	_____	_____
<b>Liabilities</b>					
<input type="checkbox"/> Not a key area.					
Were accounts payable adequately tested for propriety?	A359	_____	_____	_____	_____
Was an adequate search performed for unrecorded liabilities at the balance sheet date?	A360	_____	_____	_____	_____
Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences or postretirement benefits), and to whether accrued expenses were reasonably stated? (AC Secs. P16, C44 and P40)	A361	_____	_____	_____	_____
Were procedures performed to determine whether tax deferred annuity and life income plans are appropriately calculated to conform with GAAP and IRS regulations? (ACNO, ch. 6, p. 33)	N421	_____	_____	_____	_____
Were significant notes and bonds payable, together with interest rates and repayment periods etc., confirmed or alternative procedures performed?	A363	_____	_____	_____	_____
Were procedures performed to verify the completeness and reasonableness of transactions recorded in mandatory sinking funds and other types of debt-related reserve funds? (ACNO, ch. 6, p. 33)	N422	_____	_____	_____	_____
Is there evidence that the release of funds from these reserves was tested and appropriately recorded in the financial statements?	N423	_____	_____	_____	_____
Were procedures performed to verify whether the carrying value of debt obligations reflects the present value of the consideration received and the appropriate interest rates?	A365	_____	_____	_____	_____
Is there evidence of testing of the company's compliance with covenants to debt obligations?	A366	_____	_____	_____	_____
Was consideration given to any liabilities (including the effect of any timing differences) resulting from the Federal excise tax on investment income of private foundations and any Federal and State taxes on unrelated business income? (SOP 78-10, par. 103)	N424	_____	_____	_____	_____
Do the tests of interfund borrowings appear adequate with respect to (ACNO, ch. 6, pp. 34-35 and SOP 78-10, pars. 118-119):					
Legal restrictions, if any, on such borrowings?	N425	_____	_____	_____	_____
Authorization?	N426	_____	_____	_____	_____
Classification?	N427	_____	_____	_____	_____
Collectibility of amounts due from other funds?	N428	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Appropriateness of interest accruals and payments?</b>	N429	_____	_____	_____	_____
Based on the assessment of control risk, do the substantive tests of liabilities appear adequate? (AU Sec. 319)	A367	_____	_____	_____	_____
<b>Deferred Revenue</b>					
<input type="checkbox"/> Not a key area.					
Do the working papers indicate that consideration was given to whether the basis of deferring revenue is reasonable and consistent with the donors' or grantors' restrictions? (ACNO, ch. 6, pp. 35-36)	N430	_____	_____	_____	_____
Was consideration given to matching requirements, if any? (ACNO, ch. 6, pp. 35-36)	N431	_____	_____	_____	_____
Do the working papers indicate that consideration was given to the appropriateness of the amounts of restricted gifts, grants, bequests, donations, or other income recognized as current revenue or support? (ACNO, ch. 6, pp. 35-36)	N432	_____	_____	_____	_____
<b>Commitments and Contingencies</b>					
<input type="checkbox"/> Not a key area.					
Do the working papers include indication of the following:					
Inspection of minutes of meetings of the governing board and other appropriate committees of the board?	A373	_____	_____	_____	_____
Inspection of contracts, loan agreements, leases, and correspondence from donors, grantors, and governmental agencies, and similar documents?	A374	_____	_____	_____	_____
Accumulation and analysis of confirmation responses from banks and lawyers?	A375	_____	_____	_____	_____
Inquiry and discussion with management including management's written representations concerning liabilities and litigation, claims, assessments and regulatory requirements as applicable? (AU Secs. 333 and 337.05)	A376	_____	_____	_____	_____
Is there indication that procedures were performed to uncover the need for recording or disclosing events subsequent to the date of the financial statements? (AU Sec. 560.10-.12)	A378	_____	_____	_____	_____
Did the auditor consider evidence of the entity's activities (such as lobbying) which might cause the entity to lose its tax-exempt status or be subject to penalties or taxes? (ACNO, ch. 2, pp. 9-10)	N433	_____	_____	_____	_____
If the entity is a private foundation, as defined by IRC section 509, did the auditor determine whether the entity complied with IRS regulations concerning required distribution of income and prohibited activities? (ACNO, ch. 2, pp. 9-10)	N434	_____	_____	_____	_____
Has adequate consideration been given to loss contingencies in accordance with professional standards? (AC Sec. C59)	N435	_____	_____	_____	_____
<b>Fund Balance</b>					
<input type="checkbox"/> Not a key area.					
Where applicable, were authorizations of changes in allocations and designated balances examined? (ACNO, Ch. 6, pp. 36-37)	N436	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Do the working papers indicate that there were adequate inquiries, where applicable, as to proper classification, description and disclosure of components of the fund balance? (ACNO, Ch. 6, pp. 36-37)	N437	_____	_____	_____	_____
Do the working papers indicate that fund transfers were properly approved and recorded? (ACNO, Ch. 6, pp. 36-37)	N438	_____	_____	_____	_____
If an endowment fund is maintained, do the working papers indicate that fund income is distributed to unrestricted and restricted funds in accordance with donors' stipulations? (VHW, Ch. 1, p. 3 and Ch. 3, pp. 6-8 and SOP 78-10, par. 73)	N439	_____	_____	_____	_____
<b>Revenues, Expenses, Support, and Capital Additions</b>					
<input type="checkbox"/> Not a key area.					
Were revenues, expenses, support and capital additions for the period compared to the budget and the preceding period and reviewed for reasonableness, and were significant variances and fluctuations explained? (AU Sec. 329)	A385	_____	_____	_____	_____
Was adequate consideration given to:					
The entity's revenue recognition policy? (AC Sec. A10.105)	A386	_____	_____	_____	_____
Income recognition on transactions where the earnings process was not complete?	A387	_____	_____	_____	_____
Do the working papers indicate that consideration was given to the valuation and classification of revenue derived from service fees, such as subscription and membership income, and sales of publications and other items? (ACNO, Ch. 3, pp. 11-13)	N440	_____	_____	_____	_____
If the entity is reimbursed by a third party for costs incurred in connection with providing services to others (ACNO, Ch. 3, pp. 14-15):					
Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?	N441	_____	_____	_____	_____
Were cost reimbursement reports and the underlying support reviewed?	N442	_____	_____	_____	_____
Were appropriate allocations made of indirect costs among the entity's programs?	N443	_____	_____	_____	_____
Do the working papers indicate that the auditor considered actual receipt of, propriety of, valuation method used, and any restrictions placed on amounts received during the current period from:					
Cash contributions? (ACNO, Ch. 4, pp. 18-22)	N444	_____	_____	_____	_____
Donated services? (ACNO, Ch. 4, pp. 22-23)	N445	_____	_____	_____	_____
Gifts of securities, materials, facilities, and other nonmonetary items? (ACNO, Ch. 4, pp. 23-25)	N446	_____	_____	_____	_____
Future interests and interest free loans? (ACNO, Ch. 4, pp. 25-27)	N447	_____	_____	_____	_____
If expenses are classified by function, did the auditor adequately test the classifications and allocations? (ACNO, Ch. 2, pp. 7-8 and SOP 78-10, pp. 85-88)	N448	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If joint costs of multipurpose activities are incurred, were the requirements of SOP 87-2 appropriately considered?	N449	_____	_____	_____	_____
Were fundraising costs expensed in the proper period? (VHW, Ch. 6, p. 26 and SOP 78-10, pp. 92-97)	N450	_____	_____	_____	_____
If grants are awarded to other organizations, did the auditor review (SOP 78-10, pp. 101-102 and ACNO, Ch. 2, p. 9):					
The classification of the grants?	N451	_____	_____	_____	_____
The effects of the grantees' compliance or noncompliance with performance requirements?	N452	_____	_____	_____	_____
Were tests of payrolls, including account distribution made, where appropriate?	A383	_____	_____	_____	_____
With regard to pension plans, do the tests made of the expense and liabilities appear adequate?	N453	_____	_____	_____	_____
Based on the assessment of control risk, did the substantive tests (review, analysis, and testing) of revenues and expenditures/expenses appear adequate? (AU Sec. 319)	A390	_____	_____	_____	_____
<b>Other</b>					
Have leases been reviewed to determine that capital, sales, and direct financing leases have been properly accounted for?	A391	_____	_____	_____	_____
Were appropriate procedures applied to additional information?	A392	_____	_____	_____	_____
If the work of a specialist was used, did the auditor apply the guidance in professional standards? (AU Sec. 336)	A395	_____	_____	_____	_____
Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (AU Sec. 334)	A396	_____	_____	_____	_____
If the entity is affiliated with or otherwise financially related to other entities, did the auditor consider the need for combined financial statements or disclosure of the relationship? (ACNO, Ch. 7, p. 39)	N454	_____	_____	_____	_____

## V. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Independence (QC Sec. 10.07a)</b>					
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered? (ET Sec. 101)	A501	_____	_____	_____	_____
Have personnel been appropriately advised as to the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	A502	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)	A503	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	A504	_____	_____	_____	_____
<b>Assigning Personnel to Engagements (QC Sec. 10.07b)</b>					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	A505	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)	A506	_____	_____	_____	_____
<b>Consultation (QC Sec. 10.07c)</b>					
Was there appropriate consultation and documentation:					
In situations specified by firm policy?	A507	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	A508	_____	_____	_____	_____
Were the firm's conclusions consistent with professional standards?	A509	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	A510	_____	_____	_____	_____
<b>Supervision (QC Sec. 10.07d)</b>					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)	A511	_____	_____	_____	_____
Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)	A512	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column or (2) discussed on the pages provided at the end of this checklist.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	A513	_____	_____	_____	_____
Does it appear that the hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	A514	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, <u>required by firm policy</u> for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	A515	_____	_____	_____	_____
Review of internal control structure:					
Manual system?	A516	_____	_____	_____	_____
EDP system?	A517	_____	_____	_____	_____
Audit work programs?	A518	_____	_____	_____	_____
Financial statement disclosures?	A519	_____	_____	_____	_____
Working papers and financial statement reviews?	A520	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	A521	_____	_____	_____	_____
Were the firm's guidelines for the form and content of audit working papers complied with?	A522	_____	_____	_____	_____
If used, were scientific audit tools (e.g., computer auditing, statistical sampling, etc.) properly evaluated by persons with training in these areas? (AU Sec. 311.10)	A523	_____	_____	_____	_____
If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy and was that review documented?	A524	_____	_____	_____	_____
<b>Advancement (QC Sec. 10.07g)</b>					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)	A525	_____	_____	_____	_____
<b>Acceptance and Continuance of Clients (QC Sec. 10.07h)</b>					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	A526	_____	_____	_____	_____
<b>Professional Development (QC Sec. 10.07f)</b>					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)	A527	_____	_____	_____	_____

**VI. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS**

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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\* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.



<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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NOTE: Attach additional sheets if required.

## VII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards including, where applicable, the requirements of *Government Auditing Standards* and the Single Audit Act?
- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)?
- The auditor's reports, including all reports required by governmental agencies, were not appropriate in the circumstances?
- The documentation on this engagement does not support the firm's opinion on the financial statements?
- The firm did not comply with its policies and procedures on this engagement in all material respects?

YES\* \_\_\_\_\_ NO \_\_\_\_\_

YES\* \_\_\_\_\_ NO \_\_\_\_\_

YES\* \_\_\_\_\_ NO \_\_\_\_\_

YES \_\_\_\_\_ NO \_\_\_\_\_

YES \_\_\_\_\_ NO \_\_\_\_\_

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\* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the *Standards for Performing and Reporting on Quality Reviews*.

**QRP Section 5700****AUDIT ENGAGEMENT SUPPLEMENTS**

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# QRP Section 5710

## ***Supplemental Checklist for Review of Bank Audit Engagements***

### **Instructions for Use of the Supplemental Checklist for Review of Bank Audit Engagements**

This supplemental checklist was developed for use by reviewers of bank audit engagements. It should be used in conjunction with the *General Audit Engagement Checklist* (audit checklist) and other guidance materials issued to implement the quality review program. The instructions to Sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 212/575-6650.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of banks. All "No" answers must be thoroughly explained in Section VI of the Audit Engagement Checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to banks. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate banking engagements. These additional materials include the AICPA Financial Reporting Practice Aid, *Disclosure Checklist for Banks*, or other similarly comprehensive disclosure materials, the AICPA Industry Audit Guide, *Audits of Banks*, and the AICPA Auditing Procedure Study, *Auditing the Allowance for Credit Losses of Banks*.

This checklist has been designed for the review of banks, however it may also be used as a supplement to the general checklists for review of audit engagements of other financial institutions. However, where applicable, specific industry guides should be consulted.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

#### **Explanation of References:**

- AC Reference to section number in *FASB Accounting Standards Current Text* (vol. 1)
- AU Reference to section number in *AICPA Professional Standards*
- IAG AICPA Audit and Accounting Guide *Audit of Banks*
- SOP AICPA Statement of Position
- SX Securities and Exchange Commission Regulation SX

## Supplemental Checklist for Review of Bank Audit Engagements

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<sup>1</sup> Refer to AICPA Financial Reporting Practice Aid *Disclosure Checklist for Banks* or other similarly comprehensive materials, and the AICPA Industry Audit Guide *Audits of Banks* (see instructions on 5701).

<sup>2</sup> Reviewers should refer to the instructions for the applicable section included in the *General Audit Engagement Checklists*.

<sup>3</sup> Refer to AICPA Industry Audit Guide *Audits of Banks* and the AICPA Auditing Procedure Study *Auditing the Allowance for Credit Losses of Banks* (see instructions on 5701).

## I. REPORT AND FINANCIAL STATEMENTS

## Financial Statements and Footnotes

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Is the presentation appropriate and disclosure adequate regarding:					
Loans? (IAG, Ch. 7, p. 54)	B101	_____	_____	_____	_____
Allowance for credit losses (shown as a deduction from loans and lease receivables; disclose the method of providing reserves and a reconciliation of the balance)? (IAG, Ch. 7, pp. 54 and 55 and Ch. 8, p. 62)	B102	_____	_____	_____	_____
Domestic and foreign deposits (separately shown and disclosing interest or non-interest-bearing portions, amounts and maturities of certificates of deposit of \$100,000 or greater, large concentrations and related parties)? (IAG, Ch. 12, p. 79)	B103	_____	_____	_____	_____
Federal fund purchases, securities sold under repurchase agreements and other short-term borrowings (presented at gross amounts)? (IAG, Ch. 9, p. 68)	B104	_____	_____	_____	_____
Exclusion of trust assets? (IAG, Ch. 18, p. 98)	B105	_____	_____	_____	_____
Material interest-bearing deposits in other banks (separately disclosed)? (IAG, Ch. 4, p. 25)	B106	_____	_____	_____	_____
Federal funds sold and securities purchased under resale agreements (presented at gross amounts)? (IAG, Ch. 9, p. 68)	B107	_____	_____	_____	_____
Trading assets and related futures contracts? (IAG, Ch. 6, p. 42)	B108	_____	_____	_____	_____
Mortgage loans and mortgage backed securities held for sale? (AC Sec. Mo4.129-.131)	B109	_____	_____	_____	_____
Investment securities (disclosed separately) at the aggregate carrying value and market value? (IAG, Ch. 5, p. 34)	B110	_____	_____	_____	_____
Loan commitments and unused lines of credit for short term financing? (IAG, Ch. 22, p. 136)	B111	_____	_____	_____	_____
Amount of bank acceptances (separately stated)? (IAG, Ch. 14, p. 86)	B112	_____	_____	_____	_____
"Other" assets or liabilities that individually exceed 30% of stockholders equity (separately stated)? (SX9-03.10)	B113	_____	_____	_____	_____
For financial instruments with off-balance-sheet risks of accounting loss and off-balance-sheet credit risk (i.e. outstanding loans commitments written, standby and commercial letters of credit written, financial guarantees written, recourse obligations on receivables sold, etc. ) have the following been disclosed (AC Sec. F25.103):					
The face or contract amount? The nature and terms of the instrument (including credit and market risk)? (AC Sec. F25.112)	B114	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
For instruments with off-balance-sheet credit risk: the potential loss for failure to perform completely, and policies and information regarding collateral requirements? (AC Sec. F25.113)	B115	_____	_____	_____	_____
For group concentrations of credit risk of all financial instruments; information about the shared activity, region, or other characteristics; exposure to loss for the group; policies regarding the requirement and the nature of existing collateral for the group? (AC Sec. F25.115)	B116	_____	_____	_____	_____

## II. WORKING PAPER AREAS—BANKS

	QUES.	N/A *	YES	NO	REF.**
<input type="checkbox"/>					
<b>General (IAG, Ch. 2, p. 7)</b>					
Do the engagement planning and audit working papers consider apparent fraud and insider abuse and the results of inquiries, readings, excerpts or other evidence of an understanding of regulatory examinations, their findings and actions?	B301	_____	_____	_____	_____
Did the engagement team consider the risks to the bank of possible violations of regulations such as the following:					
Bank Secrecy Act?	B302	_____	_____	_____	_____
Legal lending limit regulations and interest rates charged?	B303	_____	_____	_____	_____
Affiliated party transaction regulations?	B304	_____	_____	_____	_____
Current minimum capital ratio requirements?	B305	_____	_____	_____	_____
Were in-substance foreclosures reviewed to determine that they were accounted for as troubled debt restructurings?	B306	_____	_____	_____	_____
Did the independent auditor review reports of significant examinations and related communications between examiners and the financial institution and, when appropriate, make inquiries of the examiners?	B307	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Director's Examinations (IAG, Appendix C, p. 162)</b>					
Procedures may be limited in a director's examination; therefore, were the following considered:					
Clearly setting forth in the engagement letter, in advance, the nature and extent of procedures?	B308	_____	_____	_____	_____
State regulations and requirements in the determination of audit scope?	B309	_____	_____	_____	_____
Compliance with the provisions of AU Sec. 622 (SAS No. 35), if the examination consisted of performing certain agreed-upon procedures?	B310	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Trust Operations (IAG, Ch. 18, p. 105)</b>					
Were the audit procedures directed to uncover the existence of contingent liabilities arising from trust department operations and the bank's fiduciary responsibilities?	B311	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

**Loans (IAG, Ch. 7, p. 56 and Ch. 8, p. 62)**

Did the loan evaluation consider or include:

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
The bank's lending policies and procedures, including its control over loan file documentation and maintenance?	B312	_____	_____	_____	_____
The qualifications of the bank loan officers?	B313	_____	_____	_____	_____
The effectiveness of the bank's internal audit and loan review program?	B314	_____	_____	_____	_____
The results of prior years' examinations and industry statistics?	B315	_____	_____	_____	_____
Loan loss experience and charge-off policy?	B316	_____	_____	_____	_____
The relative degrees of risk inherent by type of loan; considering, for example, if loans are unsecured, associated with depressed areas or industries, highly concentrated and exposed to political, geographic or economic risks?	B317	_____	_____	_____	_____
Participation purchased or sold?	B318	_____	_____	_____	_____
Overdrafts?	B319	_____	_____	_____	_____
Related party transactions?	B320	_____	_____	_____	_____
The extent to which loan renewals and extensions are used to maintain loans on a current basis?	B321	_____	_____	_____	_____
Appraisals obtained on foreclosures, including the qualifications, independence and findings of the appraisers?	B322	_____	_____	_____	_____
The use of watch lists, delinquency reports and other sources of potential problems including troubled debt restructurings and insubstance foreclosures?	B323	_____	_____	_____	_____
Did the work include the review of individual loan files including borrowers' financial statements, evidence of collateral and cash flow information?	B324	_____	_____	_____	_____
Did the work include a determination of whether or not the entity had entered into acquisition, development or construction (ADC) arrangements and that such arrangements were appropriately accounted for?	B325	_____	_____	_____	_____
In the loan area has the audit team given adequate consideration to:					
Testing executed notes, loan applications, financial statements of borrowers, chattels, other credit information and approvals?	B326	_____	_____	_____	_____
And provide evidence of the bank's compliance with the requirements of AC Sec. 125 (FAS No. 91)—Accounting for Nonrefundable Fees and Costs Associated with Origination of Acquiring Loans and Initial Direct Costs of Leases in the engagement working papers?	B327	_____	_____	_____	_____
Confirmation with bank customers?	B328	_____	_____	_____	_____
Proper accounting recognition of unearned income, interest income, points, recognition of acquisition and other fees and requirements of AC Sec. 125 (FAS No. 91)?	B329	_____	_____	_____	_____
The relationship of the total interest income yield, calculated through the comparison of total interest income to average loan balance, to interest rates in effect for the period?	B330	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was an appropriate evaluation of the adequacy of the allowance for loan losses and the selection of loans to be evaluated, documented and then performed?	B331	_____	_____	_____	_____



#### Real Estate and Other Assets

If real estate or other assets acquired through foreclosure are significant to the client, were:

Carrying values at the time of foreclosure evaluated and properly classified in the financial statements?	B332	_____	_____	_____	_____
Continuing carrying values assessed, including those for in-substance foreclosures?	B333	_____	_____	_____	_____
Loans restructured by the client properly recorded under the principles of AC Sec. D22 (FAS No. 15)?	B334	_____	_____	_____	_____
Do the working papers indicate that the auditor considered the possibility that significant liabilities may exist as a result of failure to maintain customer's assets or to otherwise fulfill fiduciary responsibilities (e.g. customer safekeeping, safe deposit box operations, collections)? (AC Sec. C59)	B335	_____	_____	_____	_____

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[The next page is 5721.]

# QRP Section 5720

## ***Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements***

### **Instructions for Use of the Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements**

This supplemental checklist was developed for use by reviewers of Voluntary Health and Welfare Organizations engagements. It should be used in conjunction with the *Checklist for Review of Audit Engagements of Not-for-Profit Organizations* (audit checklist) or, where appropriate, the *General Compilation Engagement Checklist* (compilation checklist) or the *General Review Engagement Checklist* (review checklist) and other guidance materials issued to implement the quality review program. The instructions to sections I and IV of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of Voluntary Health and Welfare Organizations. All "No" answers must be thoroughly explained in section VI of the audit checklist or section V of the Compilation Checklist or section IV of the review checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to Voluntary Health and Welfare Organizations. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate voluntary health and welfare organization engagements. These additional materials include the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations*.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

#### **Explanation of References:**

- AC Reference to section number in *FASB Accounting Standards Current Text*
- AU Reference to section number in *AICPA Professional Standards* (vol. 1)
- SOP AICPA Statement of Position
- VHW AICPA Audit and Accounting Guide *Audits of Voluntary Health and Welfare Organizations* (as of May 1, 1992)

# Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements

## Contents

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<sup>1</sup> Refer to the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* (see instructions on 5721).

<sup>2</sup> Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements for Not-For-Profit Organizations* or the appropriate section of the compilation or review checklist.

## I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Financial Statements and Notes</b>					
Is the presentation appropriate and disclosure adequate regarding:					
Does the balance sheet show the unrestricted fund and the various types of restricted funds that have been established in response to donor or grantor restrictions?	VH101	_____	_____	_____	_____
Do the financial statements contain a statement of support, revenue, and expenses and changes in fund balances to reflect the activity within each fund, and a statement of functional expenses in support of the total program and supporting services expenses for the period?	VH102	_____	_____	_____	_____
Is there separate disclosure on the costs of program services, management and general activities and fundraising efforts?	VH103	_____	_____	_____	_____
Is there disclosure of the methods used by the organization in valuing, recording and reporting donated or contributed services? (VHW, ch. 5, par. 12)	VH104	_____	_____	_____	_____
Does the statement of functional expenses contain sufficient information to enable a reader to obtain a general understanding of the nature of the costs of carrying out the organization's activities? (VHW, ch. 6, par. 17)	VH105	_____	_____	_____	_____
Is the total support from fund-raising efforts disclosed? (VHW, ch. 6, par. 13)	VH106	_____	_____	_____	_____
Is the total cost of all fund-raising activities disclosed? (VHW, ch. 6, par. 13)	VH107	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

**II. WORKING PAPER AREAS—VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS**

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<input type="checkbox"/>					
<b>General</b>					
If reporting on a consolidated financial statement, and if one or more affiliated entities were examined by other independent auditors, was consideration given to AU Section 543, Part of Audit Performed by Other Auditors? (VHW, ch. 7, par. 10)	VH301	_____	_____	_____	_____
If auditing a controlled affiliate of a national organization, was written representation obtained from the officers of the national organization that all transactions with its controlled affiliate have been recorded or reported to the independent auditor? (VHW, ch. 7, par. 11)	VH302	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Fund Accounting</b>					
Were the unrestricted resources of the organization used in accordance with its bylaws and stated purposes and actions of its governing board? (VHW, ch. 1, par. 15)	VH303	_____	_____	_____	_____
Were all restricted gifts or grants properly segregated and used in accordance with the restrictions imposed by the donor or grantor, and were all restricted funds clearly reported as such? (VHW, ch. 1, par. 15)	VH304	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Investments</b>					
Have investment gains (or losses) been recorded in the appropriate fund? (VHW, ch. 2, par. 17)	VH305	_____	_____	_____	_____
Is the unrealized appreciation or depreciation in investments at the beginning and end of the year disclosed? (VHW, ch. 2, par. 4)	VH306	_____	_____	_____	_____
Were restrictions made by the donor or grantor in regards to investment income complied with? (VHW, ch. 2, par. 17)	VH307	_____	_____	_____	_____
If investments were pooled:					
Were tests performed on the calculations in determining equity percentages of the various funds used in making additions to or distributions from the pool and in allocating income and realized gains and losses to the participating funds? (VHW, ch. 2, par. 17)	VH308	_____	_____	_____	_____
Was consideration given to any legal instruments that prescribe the nature of the investment policy to be followed or that restrict or prevent the assets or certain funds from being pooled for investment purposes? (VHW, ch. 2, par. 17)	VH309	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Land Building and Equipment</b>					
Are fixed assets recorded in a separate plant fund? (VHW, ch. 3, par.1)	VH310	_____	_____	_____	_____
Are all tangible assets being depreciated in accordance with professional standards? (AC Sec. D40)	VH311	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Were donated fixed assets valued at the fair value at the date of the gift? (VHW, ch. 3, par. 3)	VH312	_____	_____	_____	_____
Has consideration been given to restrictions placed on donated assets by the organization? (VHW, ch. 3, par. 4)	VH313	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Cash Donations and Pledges</b>					
Have procedures been performed to obtain satisfaction that the amounts reported as contributions are fairly stated? (VHW, ch. 4, par. 14)	VH314	_____	_____	_____	_____
Has the auditor considered whether the internal control procedures relating to voluntary contributions are appropriate in the circumstances and are operating effectively? (VHW, ch. 4, par. 15)	VH315	_____	_____	_____	_____
If the auditor was not satisfied that all contributions have been received and recorded was a qualified opinion or disclaimer issued on the financial statements? (VHW, ch. 4, par. 15)	VH316	_____	_____	_____	_____
Pledges receivable—					
Has pledges receivable been reviewed for both age and collectibility? (VHW, ch. 4, par. 16)	VH317	_____	_____	_____	_____
Was an allowance for uncollectible pledges considered? (VHW, ch. 4, par. 16)	VH318	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Donated Material</b>					
Was the basis of valuation of donated material reviewed? (VHW, ch. 5, par. 10)	VH319	_____	_____	_____	_____
Was a comparison of contributions and expenditures of materials with budget or prior years performed? (VHW, ch. 5, par. 10)	VH320	_____	_____	_____	_____
If significant donated materials are received from relatively few sources, was consideration given to confirming with the donors? (VHW, ch. 5, par. 10)	VH321	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Donated Services</b>					
Was a review on a test basis of the time records or other evidence performed? (VHW, ch. 5, par. 12)	VH322	_____	_____	_____	_____
Was a reasonableness test performed on the valuation of such services in comparison to local labor market conditions? (VHW, ch. 5, par. 12)	VH323	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Program and Supporting Services</b>					
Were expenditures tested (or was the system evaluated) to determine whether all expenditures are recorded in the proper period and program? (VHW, ch. 6, par. 21)	VH324	_____	_____	_____	_____
Has the method of allocating expenses by function been reviewed for reasonableness? (VHW, ch. 6, par. 21)	VH325	_____	_____	_____	_____

[The next page is 5731.]

# QRP Section 5730

## ***Supplemental Checklist for Review of Construction Contractor Engagements***

### **Instructions for Use of the Supplemental Checklist for Review of Construction Contractor Engagements**

This supplemental checklist was developed for use by reviewers of construction contractor engagements. It should be used in conjunction with the *Checklist for Review of Audit Engagements* (audit checklist) or, where appropriate, the *General Compilation Engagement Checklist* (compilation checklist) or the *General Review Engagement Checklist* (review checklist) and other guidance materials issued to implement the quality review program. The instructions to section I and III of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of construction contractors. All "No" answers must be thoroughly explained in Section VI of the audit checklist or Section V of the compilation checklist or Section IV of the review checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to construction contractors. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate construction contractor engagements. These additional materials include the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Construction Contractors*, or other similarly comprehensive disclosure materials, and the AICPA Industry Audit Guide *Construction Contractors*.

This is part of a series of supplemental checklists which the Institute is developing to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

#### **Explanation of References:**

CC	AICPA Audit and Accounting Guide <i>Construction Contractors</i> (as of May 1, 1992)
SOP	AICPA Statement of Position

## Supplemental Checklist For Review of Construction Contractor Engagements

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General .....	5735
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<sup>1</sup> Refer to—the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Construction Contractors*, or other similarly comprehensive materials, and the AICPA Industry Audit Guide *Construction Contractors* (see instructions on 5731).

<sup>2</sup> Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements* or the appropriate section of the compilation or review checklist.

<sup>3</sup> Refer to—the AICPA Industry Audit Guide *Construction Contractors* and AICPA Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (see instructions on 5731).

## I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Financial Statements and Notes</b>					
Is the presentation appropriate and discloser adequate regarding the following:					
<b>General</b>					
The method of measuring extent of progress toward completion of contracts when the percentage-of-completion method is used? (SOP 81-1, par. 45)	CN101	_____	_____	_____	_____
The reasons for selecting the completed-contract method if that method is used? (CC, ch. 6, par. 21c, 2)	CN102	_____	_____	_____	_____
The specific criteria used to determine when a contract is substantially complete when the completed-contract method is used? (SOP 81-1, par. 52)	CN103	_____	_____	_____	_____
Policies relating to combining and segmenting contracts, if applicable? (SOP 81-1, pars. 39-42)	CN104	_____	_____	_____	_____
Method of reporting affiliated entities? (CC, ch. 6, par. 21a)	CN105	_____	_____	_____	_____
The operating cycle and the range of contract durations if the operating cycle exceeds one year? (CC, ch. 6, par. 21b)	CN106	_____	_____	_____	_____
Method of reporting joint venture investments along with other joint venture disclosures? (CC, ch. 6, par. 21d)	CN107	_____	_____	_____	_____
Unapproved change orders, claims, or similar items subject to uncertainty concerning their determination or ultimate realization (CC, ch. 6, par. 21e, 1):					
The aggregate amount included in contract costs?	CN108	_____	_____	_____	_____
A description of the nature and status of the principal items comprising such aggregate amounts?	CN109	_____	_____	_____	_____
The basis on which such items are recorded?	CN110	_____	_____	_____	_____
The policy of deferral and the amounts involved for costs deferred either in anticipation of future sales (precontract costs) or as a result of an unapproved change order? (CC, ch. 6, par. 21f)	CN111	_____	_____	_____	_____
The amount of progress payments netted against contract costs at the date of the balance sheet? (CC, ch. 6, par. 21e, 2)	CN112	_____	_____	_____	_____
The effect of significant revisions of estimates where the effect is material? (SOP 81-1, par. 84)	CN113	_____	_____	_____	_____
Disclosure of backlog information on uncompleted contracts? (CC, ch. 6, par. 23)	CN114	_____	_____	_____	_____
Consideration of any state statutory disclosure requirements affecting construction contractors? (CC, ch. 11, pars. 14 and 15)	CN115	_____	_____	_____	_____
Provisions for losses on a contract where it is material in amount or unusual or infrequent in nature and are the losses shown separately as a component of cost included in the computation of gross profit? (SOP 81-1, par. 88)	CN116	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<b>Balance Sheet</b>					
Was a classified balance sheet properly considered and, if so, were the appropriate contract-related items correctly classified? (CC, ch. 6, pars. 1-28)	CN117	_____	_____	_____	_____
Disclosure of information on revenue and costs arising from claims? (SOP 81-1, pars. 65-67)	CN118	_____	_____	_____	_____
For unapproved change orders, claims, or similar items subject to uncertainty concerning their determination or ultimate realization whether billed or unbilled: (CC, ch. 6, par. 24)					
The amount included in receivables?	CN119	_____	_____	_____	_____
A description of the nature and status of the principal items comprising such amounts?	CN120	_____	_____	_____	_____
Amounts expected to be collected after one year?	CN121	_____	_____	_____	_____
Has disclosure been made of the total, and a general description of the prerequisites for billings, of amounts representing the recognized sales value of performance under contracts in which the amounts had not been billed and were not billable to customers at the balance sheet date, including amounts to be collected after one year? (CC, ch. 6, par. 25)	CN122	_____	_____	_____	_____
If receivables include amounts maturing after one year, has the following been disclosed: (CC, ch. 6, par. 27)					
The amount maturing after one year and, if practicable, the amounts maturing in each year?	CN123	_____	_____	_____	_____
Interest rates on major receivable items, or on classes of receivables, maturing after one year or an indication of the average interest rate or the range of rates on all receivables?	CN124	_____	_____	_____	_____
Are amounts billed, but not paid by customers under retainage provisions in contracts, included in receivables properly classified? (CC, ch. 6, par. 28)	CN125	_____	_____	_____	_____
If costs and estimated earnings exceed billings on some contracts, and billings exceed costs and estimated earnings on others, are the contracts segregated so that figures on the asset side include only those on which costs and estimated earnings exceed billings, and those on the liability side include only those on which billings exceed costs and estimated earnings? (CC, ch. 6, par. 18)	CN126	_____	_____	_____	_____
Are billings and related costs and estimated earnings presented separately either by short extension of the amounts on the balance sheet or in the notes to the financial statements? (CC, ch. 6, par. 18)	CN127	_____	_____	_____	_____
Are billings in excess of costs and estimated earnings classified as a current liability, except to the extent billings exceed total estimated costs at completion of the contract plus contract profits earned to date, in which case are they classified as deferred income? (CC, ch. 6, par. 13)	CN128	_____	_____	_____	_____

## II. WORKING PAPER AREAS—CONSTRUCTION CONTRACTORS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<input type="checkbox"/>					
<b>General</b>					
Did the engagement team consider legal and regulatory requirements affecting the construction contractor, including governmental prequalification reporting? (CC, ch. 11, pars. 14 and 15)	CN301	_____	_____	_____	_____
Did the auditor consider visiting selected job sites during the audit planning? (CC, ch. 10, pars. 2-4)	CN302	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Contract Costs, Revenues and Income</b>					
Is each contract a profit center for revenue recognition, cost accumulation, and income measurement or properly combined or segmented, if appropriate? (SOP 81-1, pars. 34-42)	CN303	_____	_____	_____	_____
When accounting for contract costs and revenues, have the appropriate procedures been performed regarding: (SOP 81-1, pars. 68-81, CC, ch. 10, pars. 29-49)					
Proper accounting recognition of accumulated contract costs?	CN304	_____	_____	_____	_____
Back charges?	CN305	_____	_____	_____	_____
Estimated costs to complete?	CN306	_____	_____	_____	_____
Proper evaluation of the acceptability of the method of income recognition?	CN307	_____	_____	_____	_____
Reasonableness of the amount and timing of income recognized?	CN308	_____	_____	_____	_____
Did the work include examining a representative sample of the contractor's outstanding contracts and evaluating the contractor's internal accounting control? (CC, ch. 9, pars. 2-13)	CN309	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Contracts Receivable</b>					
Did the contracts receivable evaluation consider or include (CC, ch. 10, par. 7):					
Unbilled receivables?	CN310	_____	_____	_____	_____
Retentions?	CN311	_____	_____	_____	_____
Unapproved change orders, extras, and claims?	CN312	_____	_____	_____	_____
Contract scope changes?	CN313	_____	_____	_____	_____
Contract guarantees and cancellation or postponement provisions?	CN314	_____	_____	_____	_____
Collectibility?	CN315	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<input type="checkbox"/>					
<b>Other</b>					
Was an appropriate evaluation of the provision for anticipated losses on contracts made? (SOP 81-1, pars. 85-89)	CN316	_____	_____	_____	_____
Did the work include an analysis of gross profit margins? (CC, ch. 10, pars. 54 and 55)	CN317	_____	_____	_____	_____
Has the proper accounting recognition for change orders and claims been followed? (SOP 81-1, pars. 61-63, 65-67)	CN318	_____	_____	_____	_____
Has the proper accounting recognition for investments in construction joint ventures been followed, if applicable? (CC, ch. 3, pars. 1-27)	CN319	_____	_____	_____	_____
Have revisions, if any, in revenue, cost or profit estimates been properly accounted for? (SOP 81-1, par. 83)	CN320	_____	_____	_____	_____
If the contractor elected to present backlog information on signed contracts in the financial statements, was an appropriate review of the information made and evaluated? (CC, ch. 10, pars. 58-61)	CN321	_____	_____	_____	_____

[The next page is 5741.]

# QRP Section 5740

## ***Supplemental Checklist for Review of Audits of Employee Benefit Plans***

### **Instructions for Use of the Supplemental Checklist for Review of Audits of Employee Benefit Plans**

This supplemental checklist was developed for use by reviewers of audits of employee benefit plans. It should be used in conjunction with the *Checklist for Review of Audit Engagements* (audit checklist) and other guidance materials issued to implement the quality review program. The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of employee benefit plans. All "No" answers must be thoroughly explained in Section VI of the audit checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to employee benefit plans. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate employee benefit plan engagements. These additional materials include the AICPA Financial Reporting Practice Aid *Checklist for Defined Benefit Pension Plans and Illustrative Financial Statements*, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (1991) effective for audits of financial statements for plan years beginning after December 15, 1990. The provisions of this guide should also be applied in audits of financial statements for earlier plan years when such audits are performed concurrently with audits for plan years beginning after December 15, 1990. Earlier application is encouraged.

#### **Explanation of References:**

- AC      Reference to section number in *FASB Accounting Standards Current Text* (Vol. 2)
- AEBP    Audit and Accounting Guide *Audit of Employee Benefit Plans* (as of March 31, 1991)
- EBPID    Employee Benefit Plans Industry Developments (1992)



## Supplemental Checklist for Review of Audits of Employee Benefit Plans

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<sup>1</sup> Refer to—the AICPA Financial Reporting Practice Aid *Checklist for Defined Benefit Pension Plans and Illustrative Financial Statements*, or other similarly comprehensive materials, and the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (see instructions on 5741).

<sup>2</sup> Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements*.

<sup>3</sup> Refer to—the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (see instructions on 5741).

## I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Auditor's Report</b>					
If subject to ERISA and DOL, is the plan required to have an audit? (Note: The audit requirement is applied to each separate plan and <u>not</u> each separate trust.) (AEBP, appendix A, Exhibit 4)	BP101	_____	_____	_____	_____
If the plan is subject to ERISA and DOL regulations and is required to have an audit, is the auditor independent pursuant to DOL regulations? (29 CFR 2509.75-9)	BP102	_____	_____	_____	_____
Does the auditor's report conform to the Audit and Accounting Guide— <i>Audits of Employee Benefit Plans</i> ? (AEBP, ch. 13, pp. 89-109 and appendix A)	BP103	_____	_____	_____	_____
If the audit was a limited scope audit permitted by DOL rules and regulations with respect to investment information, was this stated and a disclaimer issued? (AEBP, ch. 13, par. 22)	BP104	_____	_____	_____	_____
Does the report identify and include an appropriate opinion on supplemental schedules required by ERISA and DOL regulations? (AEBP, ch. 13, pars. .08-.15)	BP105	_____	_____	_____	_____
Is the report appropriately modified for financial statements presented on a basis other than GAAP that is acceptable under ERISA or DOL regulations? (AEBP, ch. 13, pars. .16-.19)	BP106	_____	_____	_____	_____
Is the auditor's report on financial statements of defined benefit plans appropriately worded assuming either an End-of-Year Benefit Information Date or Beginning-of-Year Benefit Information Date? (AEBP, ch. 13, pars. .04-.05)	BP107	_____	_____	_____	_____
<b>Financial Statements and Notes</b>					
<b>General</b>					
Is the presentation appropriate and disclosure adequate regarding:					
Description of method and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? (AEBP, chs. 2, 3, 4, pars. 2.09-13, 3.12-16, 4.25a-b)	BP108	_____	_____	_____	_____
Description of method and significant assumptions used to determine the actuarial present value of accumulated plan benefits including any significant changes in the method of assumptions during the year? (AC Sec. Pe 5.126b)	BP109	_____	_____	_____	_____
Description of plan including its vesting and benefit provisions? (AEBP chs. 2, 3, 4, pars. 2.24a, 3.23a, 4.26a)	BP110	_____	_____	_____	_____
Description of significant plan amendments including through the date of the report? (AEBP, chs. 2, 3, 4, pars. 2.24b, 3.23b, 4.26b)	BP111	_____	_____	_____	_____
Description of the priority of order of participants' claims to plan assets in the event of plan termination and benefits guaranteed by the Pension Benefit Guarantee Corporation (PBGC)? (AEBP, ch. 2, par. 24c)	BP112	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Description of funding policy (including minimum funding waiver if granted by the IRS or in pending status)? (AEBP, ch. 2, par. 24d)	BP113	_____	_____	_____	_____
Federal income tax status of the plan, IRS tax rulings or determination letter? (AEBP, chs. 2, 3, 4, pars. 2.24f, 3.23f, 4.26e)	BP114	_____	_____	_____	_____
Identification of investments that represent 5% of total plan assets for health and welfare plans, 5% of net assets available for benefits for defined contribution and defined benefit plans? (AEBP, chs. 2, 3, 4, pars. 2.24g, 3.23g, 4.26f)	BP115	_____	_____	_____	_____
Reporting all real estate, administrative expenses or other transactions with parties-in-interest and related parties regardless of materiality or was the audit report modified appropriately? (AEBP, chs. 2, 3, 4, pars. 2.24h, 3.23h, 4.26g, 11.01)	BP116	_____	_____	_____	_____
Prohibited transactions? (AEBP, ch. 11, par. 12)	BP117	_____	_____	_____	_____
Unusual or infrequent events or transactions occurring subsequent to latest benefit information date but before issuance of the financial statements? (AEBP, chs. 2, 3, 4, pars. 2.24i, 3.23n, 4.26h)	BP118	_____	_____	_____	_____
If the plan is subject to ERISA reporting requirements are the following schedules attached: assets held for investment (if filing under the alternative method, a schedule of assets acquired and disposed of during the year is also required), nonexempt transactions with parties-in-interest, loans or fixed income obligations due in default or uncollectible, leases in default or uncollectible, and reportable transactions? (AEBP, chs. 2, 3, pars. 2.04, 3.06)	BP119	_____	_____	_____	_____
Have the proper disclosures been made, and the liquidation basis of accounting used for plan terminations? (AEBP, chs. 2, 3, pars. 2.28-.31, 3.27-.29)	BP120	_____	_____	_____	_____
Is there a description of the policy regarding the purchase of insurance contracts? (AEBP, chs. 2, 3, 4, pars. 2.23e, 3.24e, 4.26d)	BP121	_____	_____	_____	_____
Is there a disclosure of amounts allocated to persons who have withdrawn from participation in the earnings and operations of the plan? (AEBP, ch. 3, par. 23m)	BP122	_____	_____	_____	_____
Are the amounts of unallocated assets disclosed? (AEBP, ch. 3, par. 23c)	BP123	_____	_____	_____	_____
Is the basis for determining contributions by employers and method of determining participant contributions disclosed? (AEBP, chs. 2, 3, pars. 2.23d, 3.24d)	BP124	_____	_____	_____	_____
Are investments pledged to secure debt disclosed? (AEBP, ch. 3, par. 23i)	BP125	_____	_____	_____	_____
Are guarantees by others of debt of the plan disclosed? (AEBP, ch. 3, par. 23j)	BP126	_____	_____	_____	_____
If the plan provides for participant-directed investment options, are the investment programs disclosed on a separate fund basis? (AEBP, ch. 3, par. 23k)	BP127	_____	_____	_____	_____
For plans that assign units to participants, is the proper unit information disclosed? (AEBP, ch. 3, par. 231)	BP128	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Are changes in the actuarial present value of accumulated plan benefits including amendments, actuarial assumptions, and nature of the plan disclosed? (AEBP, ch. 2, par. 22)	BP129	_____	_____	_____	_____
Is a prior-year statement of net assets and changes presented if beginning-of-year benefit information is used? (AC Sec. Pe 5.106)	BP130	_____	_____	_____	_____
Is the actuarial present value of accumulated plan benefits including vesting benefits of participants currently receiving payments, other vested benefits, and non vested benefits presented? (AEBP, ch. 2, pars. 18, 12)	BP131	_____	_____	_____	_____
If subject to ERISA and DOL, is there a reconciliation between financial statements and form 5500 amounts, if applicable? (AEBP appendix A, par. 41a)	BP132	_____	_____	_____	_____
Are significant employer-absorbed costs of plan administration disclosed? (AEBP, ch. 3, par. 23d)	BP133	_____	_____	_____	_____

**Statement of Net Assets Available for Benefits**

Is the presentation appropriate and disclosure adequate regarding:

Investments (identified by type and presented at fair value)?

(AEBP, chs. 2, 3, 4, pars. 2.09, 2.13, 3.12, 3.16, 4.09, 4.11)

BP134 \_\_\_\_\_

Information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk? (AEBP, chs. 2, 3, pars. 2.25-27, 3.24-26)

BP135 \_\_\_\_\_

Contributions receivable (each component separately disclosed)? (AEBP, chs. 2, 3, 4, pars. 2.14, 3.17, 4.12)

BP136 \_\_\_\_\_

Are unallocated insurance contracts reported on in accordance with ERISA and DOL? (AEBP, chs. 2, 3, 4, pars. 2.12, 3.15, 4.10)

BP137 \_\_\_\_\_

For health and welfare plans if significant: accrued experience rating adjustments, insurance premiums payable, deposits with insurance companies and accumulated eligibility credits? (AEBP, ch. 4, pars. 14-17 and 22)

BP138 \_\_\_\_\_

For self-insured health and welfare plans, claims reported but not paid and claims incurred but not yet reported? (AEBP, ch. 4, pars. 19, 20, 21)

BP139 \_\_\_\_\_

If subject to ERISA and DOL regulations, are comparative statements presented? (AEBP, appendix A, par. 42a)

BP140 \_\_\_\_\_

**Statement of Changes in Net Assets**

Is the presentation appropriate and disclosure adequate regarding:

Net change in fair value for each significant class of investments?

(AEBP, chs. 2, 3, 4, pars. 2.17a, 3.20a, 4.23a)

BP141 \_\_\_\_\_

Contributions from employer(s), employees, and other identified sources separately stated?

(AEBP, chs. 2, 3, 4, pars. 2.17c, d, e, 3.20c, d, e, 4.23c, d, e)

BP142 \_\_\_\_\_

Payments to insurance companies to purchase allocated contracts, net of related dividend income?

(AEBP, chs. 2, 3, 4, pars. 2.17g, 3.20g, 4.23g)

BP143 \_\_\_\_\_

Investment income?

(AEBP, chs. 2, 3, 4, pars. 2.17b, 3.20b, 4.23b)

BP144 \_\_\_\_\_

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Benefits paid to participants? (AEBP, chs. 2, 3, 4, pars. 2.17f, 3.20f, 4.23f)	BP145	_____	_____	_____	_____
Payments to insurance companies that are excluded from plan assets? (AEBP, chs. 2, 3, 4, pars. 2.17g, 3.20g, 4.23g)	BP146	_____	_____	_____	_____
Administrative expense? (AEBP, chs. 2, 3, 4, pars. 2.17h, 3.20h, 4.23i)	BP147	_____	_____	_____	_____

## II. WORKING PAPER AREAS—EMPLOYEE BENEFIT PLANS

	QUES.	N/A*	YES	NO	REF.**
<input type="checkbox"/>					
<b>Investments</b>					
For trusted assets, did the audit procedures consider or include:					
Analysis of changes in investments during the period? (AEBP, ch. 7, par. 12b)	BP200	_____	_____	_____	_____
Evidence regarding the existence and ownership of investments, such as direct confirmation (including securities in transit), and review for liens or other security interest? (AEBP, ch. 7, par. 12c, d, f)	BP201	_____	_____	_____	_____
Investment transactions, including accrued income? (AEBP, ch. 7, par. 12e, g)	BP202	_____	_____	_____	_____
Fair value of investments, including the net change in appreciation or depreciation? (AEBP, ch. 7, par. 12h, i)	BP203	_____	_____	_____	_____
Situations where the plan's investments might violate applicable laws or regulations? (AEBP, ch. 7, par. 12j)	BP204	_____	_____	_____	_____
Assets in a discretionary trust, an understanding of the related internal control structure sufficient to support transactions executed by the trust? (AEBP, ch. 7, pars. 13, 15)	BP205	_____	_____	_____	_____
For investments in a common or commingled trust, did the audit procedures consider or include:					
Confirming units of participation held by the plan? (AEBP, ch. 7, par. 18a)	BP206	_____	_____	_____	_____
Supporting documentation for unit value information? (AEBP, ch. 7, par. 18b, c)	BP207	_____	_____	_____	_____
For investments in insurance contracts did the audit procedures consider or include:					
Contracts between the contract holder and the insurance company? (AEBP, ch. 7, par. 39a)	BP208	_____	_____	_____	_____
Evidence regarding the existence and ownership of the contract, contributions, premium payments, income credits, etc., such as by direct confirmation? (AEBP, ch. 7, par. 39b)	BP209	_____	_____	_____	_____
Unusual circumstances which may affect the market value of the contract? (AEBP, ch. 7, par. 39c)	BP210	_____	_____	_____	_____
Deposit Administration Contracts, interest credited and minimum guaranteed interest? (AEBP, ch. 7, par. 40a)	BP211	_____	_____	_____	_____
Rate of return for Immediate Participation Guarantee Contracts? (AEBP, ch. 7, par. 40b)	BP212	_____	_____	_____	_____
Annuity purchases, rates consistent with contract? (AEBP, ch. 7, par. 40c)	BP213	_____	_____	_____	_____
The financial statements of the insurance company? (AEBP, ch. 7, par. 40d)	BP214	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Expenses charged to the contract? (AEBP, ch. 7, par. 40e)	BP215	_____	_____	_____	_____
Investments made in separate, or pooled separate accounts? (AEBP, ch. 7, par. 41a, b)	BP216	_____	_____	_____	_____
Did the audit procedures of the other investments consider investments such as real estate, loans, and mortgages? (AEBP, ch. 7, par. 44)	BP217	_____	_____	_____	_____
For limited-scope audits, did the audit procedures consider:					
Certified information? (AEBP, ch. 7, par. 45)	BP218	_____	_____	_____	_____
Were the audit procedures performed in all areas except investments? (AEBP, ch. 7, par. 45)	BP219	_____	_____	_____	_____
Was the information certified as to completeness and accuracy, prepared by a bank, similar institution, or insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency? (AEBP, ch. 13, par. 22)	BP220	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Contributions Received and Related Receivables</b>					
For contributions received and related receivables did the audit procedures consider or include:					
Employers' and Employees' contributions? (AEBP, ch. 8, par. 3a, b, c, e, f)	BP221	_____	_____	_____	_____
Contribution deposits records, and allowance for uncollectible amounts? (AEBP, ch. 8, par. 3d, h)	BP222	_____	_____	_____	_____
Actuary reports for defined benefit plans? (AEBP, ch. 8, par. 5a-c)	BP223	_____	_____	_____	_____
Contribution provisions of the plan instrument for defined contribution plans? (AEBP, ch. 8, par. 6a-c)	BP224	_____	_____	_____	_____
Did the audit procedures consider whether the companies' contributions to the plan were sufficient to meet the minimum funding standards set forth in ERISA? (AEBP, appendix A, pars. 10-13)	BP225	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Benefits and Payments and Claims Payable</b>					
For selected participants receiving benefit payments, did the audit procedures consider or include:					
The propriety, required approvals, eligibility, cash disbursements, (including long outstanding checks)? (AEBP, ch. 9, par. 3a-c)	BP226	_____	_____	_____	_____
Payments made by third-party administrators? (AEBP, ch. 9, par. 4)	BP227	_____	_____	_____	_____
For defined contribution plans, did the audit procedures include or consider a comparison of disbursements to participants' records? (AEBP, ch. 9, par. 3d)	BP228	_____	_____	_____	_____
For health and welfare plans, did the audit procedures include accrued benefits payable? (AEBP, ch. 9, par. 3e)	BP229	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<input type="checkbox"/>					
<b>Participant Data</b>					
For participant data, did the audit procedures consider or include:					
Demographic data, payroll data, and benefits data? (AEBP, ch. 10, pars. 4 and 5)	BP230	_____	_____	_____	_____
Multi-employer plans, employer contribution reports to participant data? (AEBP, ch. 10, par. 5)	BP231	_____	_____	_____	_____
Multi-employer plans, if participant data cannot be reviewed were other procedures performed? (AEBP, ch. 10, par. 6)	BP232	_____	_____	_____	_____
For defined benefit plans, did the audit procedures consider or include:					
Participant data compared with information given to the actuary? (AEBP, ch. 10, par. 8)	BP233	_____	_____	_____	_____
Actuary data? (AEBP, ch. 10, pars. 18 and 23)	BP234	_____	_____	_____	_____
For defined contribution plans, did the audit procedures consider or include:					
Allocation of company and individual contributions, demographic data used to determine eligibility and vesting, and terminations? (AEBP, ch. 10, pars. 9, 10 and 11)	BP235	_____	_____	_____	_____
Allocation of income or loss, forfeitures, etc.? (AEBP, ch. 10, par. 26a-e)	BP236	_____	_____	_____	_____
For health and welfare benefit plans, did the audit procedures consider or include:					
Claims information? (AEBP, ch. 10, pars. 12c and 29)	BP237	_____	_____	_____	_____
Claims incurred but not paid? (AEBP, ch. 10, pars. 30 and 32)	BP238	_____	_____	_____	_____
Premiums paid, and actuary data? (AEBP, ch. 10, pars. 28 and 32)	BP239	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Other Considerations</b>					
Did the audit procedures consider or include:					
ERISA requirements, applicable sections of the Internal Revenue Code, related DOL and IRS regulations and the potential effect on the plan? (AEBP, ch. 5, par. 15)	BP240	_____	_____	_____	_____
Risk areas, such as valuation of non-readily marketable securities or specialized investments? (AEBP, ch. 5, pars. 16-19)	BP241	_____	_____	_____	_____
Plan transactions with parties-in-interest including a basis for identification, understanding and evaluation of parties-in-interest? (AEBP, chs. 11 and 12)	BP242	_____	_____	_____	_____
If the auditor concluded that a party-in-interest transaction resulted in an illegal act, did the audit procedures adequately consider the effect on the financial statements as well as other aspects of the audit? (AEBP, ch. 11, pars. 10-13)	BP243	_____	_____	_____	_____
Reviewing the tax status of the plan and IRS determination letters? (AEBP, ch. 12)	BP244	_____	_____	_____	_____
Administrative expenses? (AEBP, ch. 12, pars. 8-9)	BP245	_____	_____	_____	_____



<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Reading the other information contained in the Form 5500? (AEBP, ch. 12, pars. 12-14)	BP246	_____	_____	_____
Reviewing line 35 of Form 5500 to consider whether realized and unrealized investment gains and losses are separately determined on the basis of revalued cost? (EBPID p. 10)	BP247	_____	_____	_____
Reading the actuary report, and reviewing the actuarial assumptions? (AEBP, ch. 10, pars. 18-23)	BP248	_____	_____	_____
Comparing the plan provisions to the plan instrument and changes in provisions by the Internal Revenue Code in effect as of the plan year-end? (AEBP, chs. 1, 8, 10, 12, pars. 1.17, 8.6a-c, 10.25a, 10.26a, 12.3)	BP249	_____	_____	_____
If SAS No. 70 was effective (either as a result of the SAS's effective date or an early application of the SAS), consideration of the effect of a service organization on the internal control structure of a user organization and the availability of audit evidence? (AU Sec. 324, pars. 6-21)	BP250	_____	_____	_____

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# QRP Section 5750

## ***Supplemental Checklist for Review of Common Interest Realty Associations***

### **Instructions for Use of the Supplemental Checklist for Review of Common Interest Realty Associations**

This supplemental checklist was developed for use by reviewers of Common Interest Realty Associations (CIRAs) audit engagements. It should be used in conjunction with either the *Checklist for Review of Audit Engagements of Not-For-Profit Organizations* or, if the entity does not use fund reporting, the *Checklist for Review of Audit Engagements* (audit checklists) and other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. The instructions to section I and III of the audit checklists should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of CIRAs.<sup>(1)</sup> It is not intended to be an all-inclusive document containing all disclosure and audit procedures related to CIRAs. It is a summarization of commonly addressed key areas and related concepts or procedures. All "No" answers must be thoroughly explained in Section VI of the audit checklists.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

#### **Explanation of References:**

- AU     References to section number in *AICPA Professional Standards* (vol. 1)  
 CIRA   AICPA Audit and Accounting Guide of *Audits of Common Interest Realty Associations* (as of August 31, 1991)

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<sup>(1)</sup> The questions in section 14594, Financial Statements and Notes, may also be useful in assisting reviewers of CIRA Review and Compilation Engagements. However, reviewers should refer to the chapter on Review and Compilation Engagements in the AICPA Audit and Accounting Guide of *Audits of Common Interest Realty Associations* for additional guidance.

# Supplemental Checklist for Review of Common Interest Realty Associations Audit Engagements

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<sup>(1)</sup> Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements for Not-For-Profit Organizations* or the *Checklist for Review of Audit Engagements*.

<sup>(2)</sup> Refer to the AICPA Industry Audit Guide *Audits of Common Interest Realty Associations* (see instructions on 5751).

**I. REPORT AND FINANCIAL STATEMENTS**

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Auditor's Report</b>					
Does the audit report disclaim an opinion on required supplemental information when presented with audited financial statements in auditor-submitted documents, unless the auditor has been engaged to examine and express an opinion on it? (AU Sec. 551.15 and CIRA, ch. 7, par. 38)	CR101	_____	_____	_____	_____
Does the audit report include an explanatory paragraph if the required supplemental information is omitted, auditors were unable to complete certain limited procedures on the information, the auditor is unable to remove substantial doubt about whether the information conforms to prescribed guidelines or the auditor has concluded that the information departs from prescribed guidelines? (CIRA, ch. 7, par. 39)	CR102	_____	_____	_____	_____
Does the report disclaim an opinion on expired budget information accompanying the financial statements in auditor-submitted documents? (AU Sec. 551.11 and CIRA, ch. 7, par. 22)	CR103	_____	_____	_____	_____
If the financial statements include budget information for prospective periods, does the report indicate the auditors' responsibilities governed by the Statement on Standards for Accountants' Services on Prospective Financial Information, Financial Forecasts and Projections? (CIRA, ch. 7, par. 22)	CR104	_____	_____	_____	_____
If the disclosure about a CIRA's funding for major repairs and replacements is absent or inadequate, did the auditor modify or consider modifying the report? (CIRA, ch. 4, par. 27 and ch. 7, par. 34)	CR105	_____	_____	_____	_____
If the CIRA or unit owners decide not to fund or elect to only partially fund the need for major repairs and replacements, did the auditor add or consider adding an emphasis-of-matter paragraph in the report to draw the user's attention to the note discussing funding for future major repairs and replacements? (CIRA, ch. 7, par. 36 and AU Sec. 508.37)	CR106	_____	_____	_____	_____
<b>Financial Statements and Notes</b>					
Is the presentation appropriate and disclosures adequate regarding:					
<b>General</b>					
If the CIRA uses fund reporting, are resources for particular purposes (long-term major repair and replacement assessments for CIRAs) classified into funds associated with specified activities or objectives? (CIRA, ch. 4, par. 1)	CR201	_____	_____	_____	_____
If the CIRA uses fund reporting, is a statement of cash flows presented when it presents a balance sheet and statement of revenues and expenses? (CIRA, ch. 4, par. 18)	CR202	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If the CIRA assesses for future major repairs and replacements and uses non-fund reporting, is there an allocation in the statement of changes in members' equity? (Components of retained earnings or deficit should not be disclosed. Allocating a portion of retained earnings to an amount equal to accumulated depreciation is an unacceptable practice.) (CIRA, ch. 4, fn. 6 and ch. 9, par. 12)	CR203	_____	_____	_____	_____
Periodic assessments for funding future major repairs and replacements in the replacement fund presented in the periods in which they are assessed? (CIRA, ch. 4, par. 13)	CR204	_____	_____	_____	_____
The CIRA's legal form (corporation or association) and that of the entity for which it provides services, areas it controls, and the number of units (shares for cooperative housing corporations and weeks for time-share associations) owned by the developer. (CIRA, ch. 4, par. 22)	CR205	_____	_____	_____	_____
Services (such as maintenance) and subsidies provided by the developer. (CIRA, ch. 4, par. 22)	CR206	_____	_____	_____	_____
The CIRA's income tax filing status and its liability for income taxes. (CIRA, ch. 4, par. 22, ch. 6, ch. 9, pars. 18-24)	CR207	_____	_____	_____	_____
The proposed use for funds collected in special assessments. (CIRA, ch. 4, par. 22)	CR208	_____	_____	_____	_____
Credits from taxing authorities that will be phased out in future reporting periods. (CIRA, ch. 4, par. 22)	CR209	_____	_____	_____	_____
Assessments that were used for purposes other than those for which they were designated. (CIRA, ch. 4, par. 22)	CR210	_____	_____	_____	_____
<b>Future Major Repairs and Replacements</b> (CIRA, ch. 4, par. 26)					
Requirements, if any, in statutes or the CIRA's documents to accumulate funds for future major repairs and replacements and description of the requirements?	CR211	_____	_____	_____	_____
A description of the CIRA's funding policy?	CR212	_____	_____	_____	_____
A statement that replacement funds, if any, are being accumulated based on estimated future (or current) costs, that actual expenditures may vary from these estimates, and that the variations may be material?	CR213	_____	_____	_____	_____
Amounts assessed for major repairs and replacements in the current period and for future periods?	CR214	_____	_____	_____	_____
A statement indicating whether a study was conducted to estimate the remaining useful lives of common property components and the costs of future major repairs and replacements?	CR215	_____	_____	_____	_____
If the CIRA's policy is to fund future major repairs and replacements by special assessments or borrowings, is there a statement indicating that that is the policy?	CR216	_____	_____	_____	_____
<b>Common Property</b> (CIRA, ch. 2, par. 13)					
The accounting policy for recognition and measurement of common property?	CR217	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
A description of common property recognized as assets in the CIRA's balance sheet?	CR218	_____	_____	_____	_____
A description of common property to which the CIRA has title, or other evidence of ownership, that is not recognized as assets in the CIRA's balance sheet?	CR219	_____	_____	_____	_____
The CIRA's responsibility to preserve and maintain the common property?	CR220	_____	_____	_____	_____
Terms and conditions of existing land or recreation leases?	CR221	_____	_____	_____	_____
Restrictions on the use or disposition of common property?	CR222	_____	_____	_____	_____
<b>Related Parties</b>					
Description and amount of revenue from each source if 10% or more of revenues are derived from any one source? (CIRA, ch. 4, par. 24)	CR223	_____	_____	_____	_____
Services, such as insurance, maintenance, or management, provided by some individual board members, officers, or developers? (CIRA, ch. 4, par. 23)	CR224	_____	_____	_____	_____
<b>Required Unaudited Supplementary Information on Future Major Repairs and Replacements</b>					
Estimates of current or future costs of future major repairs and replacements of all existing components, such as roofs, including the following: (CIRA, ch. 4, par. 30)					
Estimated current and future replacement costs and funding amounts required?	CR225	_____	_____	_____	_____
Methods used to determine the costs?	CR226	_____	_____	_____	_____
The basis for the calculations, including assumptions, if any, about interest and inflation rates?	CR227	_____	_____	_____	_____
Sources used?	CR228	_____	_____	_____	_____
Dates of studies made for that purpose, if any?	CR229	_____	_____	_____	_____
Estimates of the remaining useful lives of the components?	CR230	_____	_____	_____	_____
Amounts of funds accumulated for each component to the extent designated by the CIRA's board of directors?	CR231	_____	_____	_____	_____

## II. WORKING PAPER AREAS—CIRAs

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<input type="checkbox"/> <b>General</b>					
If the audit is for the CIRA's first period of operations, did the auditor:					
Review closing documents to evaluate the completeness of the recording of initial capital contributions collected from unit owners by the developer or declarant on behalf of the CIRA? (CIRA, ch. 7, par. 19)	CR301	_____	_____	_____	_____
Obtain evidence about whether the developer (declarant) has fulfilled its obligation to pay assessments on unsold units or to fund operating deficits? (CIRA, ch. 7, par. 19)	CR302	_____	_____	_____	_____
Obtain evidence about whether the CIRA has not been paying for developer (declarant) related expenses? (CIRA, ch. 7, par. 19)	CR303	_____	_____	_____	_____
Obtain evidence that assets received from the developer (declarant) are reported in accordance with the guidelines for common property? (CIRA, ch. 7, par. 19)	CR304	_____	_____	_____	_____
Consider the CIRA's budgeting procedures in obtaining an understanding of the internal control structure and assessing control risk? (CIRA, ch. 7, par. 21)	CR305	_____	_____	_____	_____
<input type="checkbox"/> <b>Assessments (CIRA, ch. 7, par. 24)</b>					
Did the auditor compare total reported assessments for the period with budgeted amounts and test whether amounts assessed to individual owners have been computed in accordance with the CIRA's documents?	CR306	_____	_____	_____	_____
<input type="checkbox"/> <b>Investments (CIRA, ch. 7, par. 26)</b>					
Did the auditor verify that investments conform to the CIRA's legal requirements and its governing documents?	CR307	_____	_____	_____	_____
<input type="checkbox"/> <b>Insurance (CIRA, ch. 7, par. 28)</b>					
Did the auditor consider whether a CIRA's insurance coverage complies with statutory or other documentary requirements?	CR308	_____	_____	_____	_____
<input type="checkbox"/> <b>Future Major Repairs and Replacements</b>					
If the information was available:					
Did the auditor review the CIRA's governing documents and relevant state statutes to determine whether the CIRA is required to set aside funds on a systematic basis for future major repairs and replacements? (CIRA, ch. 7, par. 29)	CR309	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the auditor apply certain limited procedures to the required supplementary information on estimates of current or future costs of future major repairs and replacements such as:					
Determining by physical inspection or review of the CIRA's legal documents whether the disclosure includes all major property components? (CIRA, ch. 7, par. 31)	CR310	_____	_____	_____	_____
Comparing estimates of the costs of major repairs with current period expenditures and with the annual budget? (CIRA, ch. 7, par. 31)	CR311	_____	_____	_____	_____
Inquiring of management about whether the CIRA's property maintenance records, which reflect each component's replacement history, were considered in determining the information to be disclosed? (CIRA, ch. 7, par. 31)	CR312	_____	_____	_____	_____
Inquiring of management about whether the age and condition of the components were considered in determining the information and amounts to be disclosed? (CIRA, ch. 7, par. 31)	CR313	_____	_____	_____	_____
Checking the mathematical accuracy of amounts disclosed? (CIRA, ch. 7, par. 31)	CR314	_____	_____	_____	_____
Inquiring of management about whether the study was prepared by the board or a professional engineer and whether the methods and bases for estimating the amounts disclosed are documented? Considering whether those methods and bases are reasonable? If the study was conducted by the board, considering whether the source of the information used to estimate the useful lives and current or future repair and replacement costs, for example, bids from contractors or technical manuals on useful lives of various components are reasonable? (CIRA, ch. 7, par. 31 and AU Sec. 336 and 342)	CR315	_____	_____	_____	_____

[The next page is 5761.]



## QRP Section \_ 760

# ***Supplemental Checklist for Review of Providers of Health Care Service Engagements***

### **Instructions for Use of the Supplemental Checklist for Review of Providers of Health Care Service Engagements**

This supplemental checklist was developed for use by reviewers of health care service engagements. It should be used in conjunction with the *Checklist for Review of Audit Engagements of Not-for-Profit Organizations* (audit checklist) or, where appropriate, with, the *General Compilation Engagement Checklist* (compilation checklist) or the *General Review Engagement Checklist* (review checklist) and other guidance materials issued to implement the quality review program. The reviewer should be sure to complete section III of the Not-for-Profit checklist if the entity is contractually required to submit reports prepared in accordance with the OMB Circular A-133. In addition, if the entity is a for-profit health care provider, the reviewer should complete the Checklist for Review of Audit Engagements instead of the Not-for-Profit checklist. The instructions to sections I and IV of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of Providers of Health Care Services. All "No" answers must be thoroughly explained in section VI of the audit checklist or section V of the compilation checklist or section IV of the review checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to Providers of Health Care Services. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate Providers of Health Care Service engagements. These additional materials include the AICPA Industry Audit Guide *Audits of Providers of Health Care Services*.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Quality Review Division.

#### **Explanation of References:**

HCS     AICPA Audit and Accounting Guide *Audits of Providers of Health Care Services*

SOP     AICPA Statement of Position

## Supplemental Checklist for Review of Providers of Health Care Services Engagements

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<sup>1</sup> Refer to the AICPA Industry Audit Guide, *Audits of Providers of Health Care Services*.

<sup>2</sup> Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements of Not-for-Profit Organizations* or the appropriate section of the compilation or review checklist.

## I. REPORT AND FINANCIAL STATEMENTS

## Financial Statements and Notes

Is the presentation appropriate and disclosure adequate regarding:

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Cash and restricted cash? (HCS, ch. 5, par. 5.07)	HC101	_____	_____	_____	_____
Transfers of cash between funds? (HCS, ch. 5, par. 5.07)	HC102	_____	_____	_____	_____
Amount of personal trust funds held? (HCS, ch. 5, par. 5.07)	HC103	_____	_____	_____	_____
Donor-imposed restrictions on investment principal and income? (HCS, ch. 6, par. 6.17)	HC104	_____	_____	_____	_____
Involvement in any investment pools? (HCS, ch. 6, par. 6.17)	HC105	_____	_____	_____	_____
Management's policy for providing charity care and the level of charity care provided? (HCS, ch. 2, par. 2.04)	HC106	_____	_____	_____	_____
Significant contractual arrangements with third parties? (HCS, ch. 7, par. 7.22)	HC107	_____	_____	_____	_____
Pending claims, appeals or settlements regarding third-party payors? (HCS, ch. 7, par. 7.22)	HC108	_____	_____	_____	_____
Contracts with related parties and significant contractual agreements? (HCS, ch. 9, par. 9.35)	HC109	_____	_____	_____	_____
The nature of any relationship between the entity and lessors, bailors or other owners of property? (HCS, ch. 8, par. 8.12)	HC110	_____	_____	_____	_____
The receipt of donated property and equipment initially reported in a restricted fund? (HCS, ch. 8, par. 8.15)	HC111	_____	_____	_____	_____
Separate reporting of property and equipment not used for health care operations? (HCS, ch. 8, par. 8.15)	HC112	_____	_____	_____	_____
The tax-exempt status and tax contingencies? (HCS, ch. 9, par. 9.35)	HC113	_____	_____	_____	_____
Liabilities relating to refundable fee arrangements? (HCS, ch. 9, par. 9.35)	HC114	_____	_____	_____	_____
Medical malpractice insurance? (HCS, ch. 10, par. 10.51)	HC115	_____	_____	_____	_____
The method of revenue recognition and recording unrestricted and restricted donations and investment income of both general and restricted funds? (HCS, ch. 12, par. 12.13)	HC116	_____	_____	_____	_____
The identification and explanation of the estimated amounts that are payable or receivable regarding contractual adjustments and third-party settlements? (HCS, ch. 12, par. 12.13)	HC117	_____	_____	_____	_____
Expenses incurred in soliciting contributions are separately disclosed? (HCS, ch. 12, par. 12.16)	HC118	_____	_____	_____	_____
Related entities, investees and affiliates? (HCS, ch. 13, par. 13.09)	HC119	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
The basis for accruing health care costs and significant business and contractual arrangements with hospitals, physicians, and other associated entities? (SOP 89-5, par. 32)	HC120	_____	_____	_____	_____
Classification of revenue, expenses, gains and losses? (HCS, ch. 12, par. 12.02)	HC121	_____	_____	_____	_____

## II. WORKING PAPER AREAS—PROVIDERS OF HEALTH CARE SERVICES

	QUES.	N/A *	YES	NO	REF.**
<input type="checkbox"/> <b>Cash and Cash Equivalents</b>					
Are cash donations properly deposited and recorded on a timely basis? (HCS, ch. 5, par. 5.07)	HC301	_____	_____	_____	_____
Was donor correspondence (and/or board and board meeting minutes) reviewed to determine the presence or absence of donor restrictions? (HCS, ch. 5, par. 5.07)	HC302	_____	_____	_____	_____
Are personal funds properly accounted for and controlled? (HCS, ch. 5, par. 5.07)	HC303	_____	_____	_____	_____
<input type="checkbox"/> <b>Investments</b>					
Were board, investment committee or other committee minutes reviewed for evidence of donated securities? (HCS, ch. 6, par. 6.17)	HC304	_____	_____	_____	_____
Are donated securities properly reported at fair market value at the date of the gift and in the proper fund? (HCS, ch. 6, par. 6.17)	HC305	_____	_____	_____	_____
Was documentation reviewed related to donor restrictions and was compliance tested for the restrictions, if any? (HCS, ch. 6, par. 6.17)	HC306	_____	_____	_____	_____
Are restricted funds pooled only in accordance with donor, grantor, or other restrictions? (HCS, ch. 6, par. 6.17)?	HC307	_____	_____	_____	_____
Are income and gains or losses from investment pools distributed equitably among the participating funds? (HCS, ch. 6, par. 6.17)	HC308	_____	_____	_____	_____
<input type="checkbox"/> <b>Receivables</b>					
Does the entity have a policy to distinguish bad-debt expense from charity care? (HCS, ch. 7, par. 7.02)	HC309	_____	_____	_____	_____
Were admission and registration documents reviewed to determine that information for billing and collection are accurate? (HCS, ch. 7, par. 7.22)	HC310	_____	_____	_____	_____
If the entity was reimbursed under a case-payment system, were regulatory denials and the costs of providing services for patient stays longer than established means, appropriately considered in determining contracted allowances and third-party settlements? (HCS, ch. 7, par. 7.05)	HC311	_____	_____	_____	_____
If third-party programs have provisions limiting the amounts of reimbursable costs, were these limitations considered in regards to the third-party accruals? (HCS, ch. 7, par. 7.22)	HC312	_____	_____	_____	_____
Is there appropriate information and analysis to support each significant third party payment settlement amount (receivable or liability) and collectibility? (HCS, ch. 7, par. 7.22)	HC313	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Was a determination made with respect to uncollectible accounts reserve regarding consideration of historical trends, reviews of accounts and appropriate aging of accounts by major payor (self-pay vs. third party) category? (HCS, ch. 7, par. 7.22)	HC314	_____	_____	_____	_____
Was a general understanding obtained of the various contractual arrangements with third party payers? (HCS, ch. 7, par. 7.22)	HC315	_____	_____	_____	_____
Was consideration given to changes in the reimbursement program provisions (such as limits on increases in reimbursable costs and the implementation of prospective payment systems) in the recovery of deferred debits and the realization of deferred credits recorded for reimbursement timing differences? (HCS, ch. 3, par. 3.18)	HC316	_____	_____	_____	_____
Are amounts reported in the financial statement complete and properly calculated and accumulated? (HCS, Ch. 7, par. 7.22)	HC317	_____	_____	_____	_____
Are receivables reported in the financial statements at net realizable value? (HCS, ch. 7, par. 7.22)	HC318	_____	_____	_____	_____
Are interfund receivables properly reported at net realizable amounts? (HCS, Ch. 7, par. 7.22)	HC319	_____	_____	_____	_____
Were differences between total interfund receivables and total interfund payables appropriately investigated and resolved? (HCS, Ch. 7, par. 7.22)	HC320	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Property and Equipment, Supplies and Other Assets</b>					
Was donated property reported at fair market value at the date of donation? (HCS, ch. 8, par. 8.15)	HC321	_____	_____	_____	_____
For the purposes of cost reimbursement and revenue recognition, did the entity receive appropriate health care planning agency or other regulatory agency approvals, if required, for property and equipment additions? (HCS, ch. 8, par. 8.15)	HC322	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Current Liabilities and Long-Term Obligations</b>					
Are health care costs accrued as the services are rendered, including estimates of the costs of services rendered but not yet reported? (SOP 89-5, par. 30)	HC323	_____	_____	_____	_____
If the provider of prepaid health care services is obliged to render services to specific members beyond the premium period due to provisions in the contract or regulatory requirement, were those costs accrued currently? (SOP 89-5, par. 30)	HC324	_____	_____	_____	_____
Are amounts payable to hospitals, physicians, or other health care providers under risk-retention, bonus, or similar programs accrued during the contract period? (SOP 89-5, par. 31)	HC325	_____	_____	_____	_____
Are all liabilities in regard to contracts with Physicians, Specialists, Related Parties and others properly reported? (HCS, ch. 9, par. 9.35)	HC326	_____	_____	_____	_____
Were any procedures performed to verify that third-party advances are properly reported? (HCS, ch. 9, par. 9.35)	HC327	_____	_____	_____	_____
Were deferred debits or credits that relate to third-party timing differences properly reported? (HCS, ch. 9, par. 9.35)	HC328	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Is deferred revenue and the obligation to provide future services to, and use of facilities by, current residents of continuing care retirement communities recognized and properly reported? (HCS, ch. 9, par. 9.35)	HC329	_____	_____	_____	_____
Did the not-for-profit entity obtain a qualifying income tax exemption from government authority? (HCS, ch. 9, par. 9.35)	HC330	_____	_____	_____	_____
Was a determination made regarding possible transactions that would affect both the entities' tax status and tax liability? (HCS, ch. 9, par. 9.35)	HC331	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Commitments and Contingencies</b>					
Was a review of the amount of insurance coverage, type of coverage and deductible provisions performed to determine the level of risk that is retained by the entity? (HCS, ch. 10, par. 10.51)	HC332	_____	_____	_____	_____
Was an understanding obtained on the accuracy and completeness of the incident reporting and monitoring system? (HCS, ch. 10, par. 10.32)	HC333	_____	_____	_____	_____
Were letters of inquiry sent to malpractice insurance carriers and legal counsel? (HCS, ch. 10, par. 10.51)	HC334	_____	_____	_____	_____
Was a review performed of prior estimates and historical loss experience? (HCS, ch. 10, par. 10.51)	HC335	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Net Assets (Equity or Fund Balance)</b>					
Was documentation of contributions of assets examined for evidence of restrictions? (HCS, ch. 11, par. 11.03)	HC336	_____	_____	_____	_____
Is each fund in balance? (HCS, ch. 11, par. 11.03)	HC337	_____	_____	_____	_____
<input type="checkbox"/>					
<b>Revenue, Expenses, Gains, and Losses</b>					
Were procedures performed to ensure that charges for services and supplies provided to patients, residents and others are properly recorded? (HCS, ch. 12, par. 12.17)	HC338	_____	_____	_____	_____
Was current period revenue and expenses compared with prior periods and budgets and were any unusual variances explained? (HCS, ch. 12, par. 12.17)	HC339	_____	_____	_____	_____
Were procedures performed to verify the accuracy and completeness of medical records information for DRG assignment? (HCS, ch. 12, par. 12.17)	HC340	_____	_____	_____	_____
Was the accuracy of revenue compared to the results of any peer review organization DRG validation audits, review of the appropriateness of admissions and related denials, and the necessity of outlier services including days and costs? (HCS, ch. 12, par. 12.17)	HC341	_____	_____	_____	_____
Is revenue from health care services reported net of contractual adjustments and other adjustments? (HCS, ch. 12, par. 12.17)	HC342	_____	_____	_____	_____
Was a revenue cutoff test performed? (HCS, ch. 12, par. 12.17)	HC343	_____	_____	_____	_____
Were unrestricted gifts, donations, and bequests properly reported? (HCS, ch. 12, par. 12.17)	HC344	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<input type="checkbox"/> <b>Reporting Entity and Related Organizations</b>					
Were any procedures performed to verify that the reporting entity is appropriate (all investees, affiliates and other related parties are appropriately accounted for)? (HCS, ch. 13, par. 13.09)	HC345	_____	_____	_____	_____
<input type="checkbox"/> <b>Continuing Care Retirement Communities</b>					
Were the estimated amount of advance fees expected to be refunded to current residents under terms of contracts accounted for as a liability? (SOP 90-8, par. 22)	HC346	_____	_____	_____	_____
Were the fees that will be paid to current residents or their designees only to the extent of the proceeds of reoccupancy of a contract holder's unit accounted for as deferred revenue? (SOP 90-8, par. 31)	HC347	_____	_____	_____	_____
Were nonrefundable advance fees accounted for as deferred revenue? (SOP, 90-8, par. 43)	HC348	_____	_____	_____	_____
Was an annual calculation made regarding the obligation to provide future services to current residents? (SOP 90-8, par. 53)	HC349	_____	_____	_____	_____
Were the costs of acquiring initial continuing-care contracts capitalized? (SOP 90-8, par. 63)	HC350	_____	_____	_____	_____

[The next page is 5771.]



# QRP Section 5770

## ***Supplemental Checklist for Review of Audits of HUD Engagements***

### **Instructions for Use of the Supplemental Checklist for Review of Audits of HUD Engagements**

This supplemental checklist was developed for use by reviewers of HUD Programs performed in accordance with the Consolidated Audit Guide for Audits of HUD Programs. It should be used in conjunction with the Checklist for Review of Audit Engagements (audit checklist). The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 201/938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of HUD Programs. All "No" answers must be thoroughly explained in Section V of the audit checklist.

This checklist reflects guidance issued through November 1992 and is not intended to be an all-inclusive document containing all disclosures and audit procedures related to HUD Programs. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedures issues in order to sufficiently evaluate HUD engagements. These additional materials include the "Consolidated Audit Guide for Audits of HUD Programs" IG 2000.4., the AICPA TPA Sec. 6985 issued in November 1992, the Unofficial Questions and Answers on HUD Handbook IG 2000.4—CPA Letter January/February 1992, SOP 92-7 "Audits of State and Local Governmental Entities Receiving Federal Financial Assistance" and the HUD Handbook 4370.2 Rev. 1 "Financial Operations and Accounting Procedures for Insured Multifamily Projects".

**Note:** Reference to SAS No. 63 in the HUD Guide, Ch. 1, should be considered a reference to SAS No. 68. (AU Sec. 801)

#### **Explanation of References:**

AU	Reference to section number in <i>AICPA Professional Standards</i> Volume 1 (As of June 1, 1992)
CFR	Code of Federal Regulations
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAO	<i>Government Auditing Standards</i> (1988 Revision), United States General Accounting Office
GNMA	Government National Mortgage Association
HUD	Handbook IG 2000.4—Consolidated Audit Guide for Audits of HUD Programs (1991)
OMB	The Office of Management and Budget

## Supplemental Checklist for Review of Audits of HUD Engagements

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<sup>(1)</sup> Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements*.

## I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>General</b>					
<p>The term "Major Programs" as defined by the Consolidated Audit Guide for Audits of HUD Programs means an individual assistance program or a group of programs in a category of Federal Financial Assistance for which total expenditures exceed the larger of three percent of total Federal funds expended or \$300,000. A mortgagee with an FHA-insured portfolio balance exceeding \$300,000 is considered a major program. A program consisting of an outstanding HUD-insured, guaranteed or direct loan balance exceeding \$300,000 as of the reporting date shall be considered a major program. In addition, a Government National Mortgage Association (GNMA) Issuer with a remaining principal balance exceeding \$300,000 is considered a major program. (HUD, Ch. 1, par. 1-3) Furthermore, although organizations subject to Ch. 8 may not have major programs, HUD still requires an opinion on compliance with specific requirements. (HUD, Ch. 8, par 8-4)</p> <p><i>Note:</i> The materiality standard mentioned in questions H101-H109 is that required by the Yellowbook with the following exceptions—entities subject to Ch. 8 of the HUD Audit Guide—where <u>all</u> instances of noncompliance must be noted or in the case of any distribution from a project with an insured, coinsured, or HUD-held multifamily mortgage where the project is not in a surplus cash position.</p>					
Does the audit report cover clearly indicate the HUD programs (major and nonmajor) and the periods for which compliance testing was performed for those programs? (HUD, ch. 3, par. 3-1)	H101	_____	_____	_____	_____
Did the auditor issue the following reports in connection with the audit of HUD programs (HUD, Ch. 3, par. 3-3):					
Report on Audited Financial Statements and Supplemental Information? (HUD, Ch. 3, Example A)	H102	_____	_____	_____	_____
Combined Report on Internal Control Structure as it relates to both financial reporting and administering HUD-Assisted Programs? ( <i>Note:</i> There may be two reports issued on the internal control structure—one in accordance with <i>Government Auditing Standards</i> and one on the internal control structure used to administer the HUD Program) (HUD, Ch. 3, Example B as modified in AICPA TPA Sec. 6985 and AICPA TPA Sec. 6985, par. .01)	H103	_____	_____	_____	_____
Opinion on compliance with specific requirements (other than Civil Rights—Nondiscrimination and Marketing) applicable to major HUD—Assisted Programs? (HUD, Ch. 3, Example C as modified in AICPA TPA Sec. 6985 and AU Sec. 801.53-.86)	H104	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
A Report on Compliance with Specific Requirements for nonmajor programs (other than Civil Rights—Nondiscrimination and Marketing) which includes statements of positive assurance regarding compliance with laws and regulations for transactions tested, and negative assurance as to transactions not tested, as well as, a disclaimer of an opinion on compliance with the specific requirements identified? (AU Sec. 801.87-.90, HUD, Ch. 3, Example D as modified in AICPA TPA Sec. 6985)	H105	_____	_____	_____	_____
A Report on the Results of Procedures used to Test Compliance with the Common Requirements (Cash Management and Federal Financial Reports) as well as certain Specific Requirements (relating to Civil Rights—Nondiscrimination and Marketing)? (HUD Ch. 4, Par. 4-5A and Ch. 5, par. 5-5B, AU Sec. 801.50-.52 and AICPA TPA Sec. 6985)	H106	_____	_____	_____	_____
Report on Compliance with Laws and Regulations, based upon an audit of the financial statements performed in accordance with— <i>Government Auditing Standards</i> ? (AU Sec. 801.21-.32 and AICPA TPA Sec. 6985)					
<i>Note:</i> There may be other laws and regulations that affect a HUD program (including but not limited to IRS regulations). The auditor should consider these laws and regulations in performing the engagement. Violation of applicable laws and regulations could have a material effect on the appropriateness of the report.	H107	_____	_____	_____	_____
Schedule of Findings and Questioned Costs? (HUD, Ch. 3, Example E)	H108	_____	_____	_____	_____
Auditor's schedule of outstanding, unresolved audit and program review findings? (HUD, Ch. 3, Example F)	H109	_____	_____	_____	_____
Did the auditor promptly prepare a separate written report concerning illegal acts or indications of such acts and include all questioned costs as the result of the acts? (HUD, Ch. 1, par. 1-5)	H110	_____	_____	_____	_____
Did the auditor include in the audit report or an accompanying transmittal letter:					
A Federal Employer ID #?	H111	_____	_____	_____	_____
Evidence of licensing in the jurisdiction where the audit was conducted?	H112	_____	_____	_____	_____
Identification of the Lead Auditor?	H113	_____	_____	_____	_____

***Program Specific—Additional Requirements***

***A. Chapter 4, Section 8 Audit Guidance***

Have the following additional reporting requirements been met:

Audited financial statements must be submitted to the contract administrator within 60 days after the end of the project fiscal year in accordance with 24 CFR Part 880 Section 8, and Part 881 Section 8? (HUD, Ch. 4, par. 4-4)

H114 \_\_\_\_\_

QUES.	N/A	YES	NO	REF.
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Note: For financial reporting required by the owner and applicable procedures, see the Federal Financial Reports Section in Section III. (HUD, Ch. 4, par. 5C)

**B. Chapter 5, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages and Section 202 Direct Loans—Reporting Requirements**

Have the following additional reporting requirements been met:

The Regulatory Agreement incident to the insured mortgage requires the annual submission of the audited financial statements prepared in accordance with the requirements of the Secretary, within 60 days after the end of the fiscal year? (HUD, Ch. 5, par. 5-4)

H115	_____	_____	_____	_____
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The statements must be certified to be accurate by the mortgagor (and the Managing Agent, if applicable) when the project is owned by an individual and by two general partners, when it is owned by a partnership or by two officers, when owned by a corporation? (HUD, Ch. 5, par. 5-4 and HUD HB 4370.2 Rev. 1, Ch. 3, par. 3-8)

H116	_____	_____	_____	_____
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**C. Chapter 6, Insured Development Cost Certification Audit Guidance—Reporting Requirements**

Have the following additional reporting requirements been met:

The Mortgagors Certificate of Actual Cost (Form HUD-92330) should be supported by the information contained in the required financial statements (HUD Ch. 6 pars. 6-4 and 6-6). The Certificate of Actual Cost, auditor's reports and required financial statements should be submitted to the applicable HUD Field Office. (HUD, Ch. 6, par. 6-4)

H117	_____	_____	_____	_____
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**Federal Financial Reports**

For compliance requirements and working paper areas, see the Federal Financial Reports section of the Common Compliance Requirements in Section III. (HUD, Ch. 6, par. 6-5A)

**D. Chapter 7, GNMA Issuers of Mortgage-Backed Securities—Reporting Requirements**

Have the following additional reporting requirements been met:

GNMA issuers of Mortgage-Backed Securities are required to submit an annual audit report to GNMA within 90 days of the close of its fiscal year in accordance with GNMA Handbook 5500.1 Rev. 6? (HUD, Ch. 7, par. 7-4)

H118	_____	_____	_____	_____
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That the audit report includes a GNMA computation of adjusted net worth and the auditor's report thereon? (HUD, Ch. 7, par. 7-4)

H119	_____	_____	_____	_____
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That a computation of the GNMA required fidelity bond coverage and mortgage servicing error and omission policy amounts should be submitted? (HUD Ch. 7, par. 7-4)

H120	_____	_____	_____	_____
------	-------	-------	-------	-------

**Federal Financial Reports**

*Note:* For compliance requirements and working paper areas, see the Federal Financial Reports section of the Common Compliance Requirements in Section III. (HUD, Ch. 7, par. 7-5A)

**E. Chapter 8, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance and Analysis of Net Worth Requirements—Reporting Requirements**

Have the following additional reporting requirements been met:

Title II lenders, Nonsupervised Mortgagees and loan correspondents are required annually to submit an audit report to the Commissioner within 90 days of the close of its fiscal year end? (HUD, Ch. 8, par. 8-4)

<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
H121	_____	_____	_____	_____

An analysis of the mortgagee's net worth that is required for all mortgagees and lenders? (HUD, Ch. 8, par. 8-4)

H122	_____	_____	_____	_____
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Net worth must be adjusted to reflect only those assets acceptable to the Commissioner and the audit must include an analysis of the escrow funds? Guidance for the analysis of net worth and unacceptable assets is contained in HUD Ch. 8, par. 8-6. (HUD, Ch. 8, par. 8-4)

H123	_____	_____	_____	_____
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The auditor's opinion on compliance and report on the internal control structure are required for every Title II lender, nonsupervised mortgagee, or loan correspondent regardless of the number of loans originated during the audit period? (HUD, Ch. 8, par. 8-4)

H124	_____	_____	_____	_____
------	-------	-------	-------	-------

All instances of noncompliance, regardless of materiality, identified by the auditor must be reported as a finding, even in those cases where corrective action was taken by the auditee after the audit period? (HUD, Ch. 8, par. 8-4)

H125	_____	_____	_____	_____
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**F. Chapter 9, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance—Reporting Requirements**

Have the following additional reporting requirements been met:

Every nonsupervised Title I lender or loan correspondent is required annually to submit an audit report to the Secretary within 75 days of the close of its fiscal year end? (HUD, Ch. 9, par. 9-4)

H126	_____	_____	_____	_____
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An analysis of the lender's net worth is required? (HUD, Ch. 9, par. 9-4)

H127	_____	_____	_____	_____
------	-------	-------	-------	-------

Net worth has been adjusted to reflect only those assets acceptable to the Secretary? Guidance for the analysis of net worth and unacceptable assets is contained in HUD Chapter 9, par. 9-6. (HUD, Ch. 9, par. 9-4)

H128	_____	_____	_____	_____
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The auditor's opinion on compliance and report on the internal control structure are required for every Title I lender, or loan correspondent regardless of the number of loans originated during the audit period? (HUD, Ch. 9, par. 9-4)

H129	_____	_____	_____	_____
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Material instances of noncompliance identified by the auditor must be reported as a finding, even in those cases where corrective action was taken by the auditee after the audit period? (HUD, Ch. 9, par. 9-4)

H130	_____	_____	_____	_____
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## II. WORKING PAPER AREAS—HUD ENGAGEMENTS

	<u>QUES.</u>	<u>N/A</u> *	<u>YES</u>	<u>NO</u>	<u>REF.</u> **
<b>General</b>					
Does the engagement letter required by HUD specify the following:					
● that the audit was being performed in accordance with GAAS, <i>Government Auditing Standards</i> and the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)	H201	_____	_____	_____	_____
● that the scope of the audit and contents of the financial report to be issued will meet the requirements of the Consolidated Audit Guide for Audits of HUD Programs? (HUD, Ch. 1, par. 1-6)	H202	_____	_____	_____	_____
● that the Secretary of HUD, the HUD Inspector General and GAO/GAO representatives have access to the working papers? (HUD, Ch. 1, par. 1-6)	H203	_____	_____	_____	_____
Did the auditor's working papers indicate:					
A cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer? (GAO, Ch. 4, par. 22)	H204	_____	_____	_____	_____
For <u>multifamily mortgagors only</u> , that the auditor considered whether the firm performs manual or automated bookkeeping services and/or maintains official accounting records? If the auditor was not independent, is there evidence that the auditor resigned from the engagement? (HUD, Ch. 1, par. 1-2)	H205	_____	_____	_____	_____
If the auditee is subject to <u>OMB Circular A-133</u> (Non-Profit Organizations) and owns a HUD-assisted project subject to the HUD Audit Guide, were procedures and reports relating to the specific HUD engagement performed and reported on in accordance with the HUD Audit Guide? (HUD, Ch. 1, par. 1-1)	H206	_____	_____	_____	_____
If the subject property is out of state, <u>and substantial audit work was performed out of state</u> did the firm document evidence of <u>meeting the licensing requirements</u> for the state, if necessary?	H207	_____	_____	_____	_____
That appropriate personnel are in compliance with the 1988 Yellow Book CPE requirements and related interpretations?	H208	_____	_____	_____	_____
That the firm met the independence and quality control requirements of the 1988 Yellow Book?	H209	_____	_____	_____	_____
That the client considered and identified all major and nonmajor programs?	H210	_____	_____	_____	_____
Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indication of illegal acts (AU Sec. 801.21 and GAO, Ch. 5) that includes, when appropriate:					

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations? (AU Sec. 801.26 and GAO, Ch. 5, par. 6)	H211	_____	_____	_____	_____
Presentation of material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding the issuance of a report on compliance? (AU Sec. 801.27-.30 and GAO, Ch. 5, par. 5)	H212	_____	_____	_____	_____
Reference to a separate letter, if applicable, describing immaterial differences of noncompliance? (AU Sec. 801.30)	H213	_____	_____	_____	_____
If appropriate, that the scope section of the reports were properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results? (GAO, Ch. 5, par.4)	H214	_____	_____	_____	_____
When appropriate, that the auditor issued a separate report on fraud, abuse, or illegal acts, or indications of such acts? (AU Sec. 801.32)	H215	_____	_____	_____	_____
Test of controls were performed to evaluate effectiveness of design and operation of internal control structure policies and procedures in preventing or detecting material non-compliance with the requirements of HUD programs <u>regardless</u> of whether the auditor assesses internal control risk below the maximum? In instances where controls were not tested, was the report properly modified? (HUD, Ch. 1, par. 1-7)	H216	_____	_____	_____	_____
Did the auditor obtain a representation letter from management that (AU Sec. 801 pars. .19 and .91-.92):					
● represented that they identified all laws and regulations that have a direct and material effect on the determination of financial statement amounts and the requirements of each HUD program? (HUD, Ch. 1, par. 1-6)	H217	_____	_____	_____	_____
● represented that management is responsible for the company's compliance with the laws and regulations applicable to the organization and the requirements of each HUD program and that they have complied with them? (HUD, Ch. 1, par. 1-6)	H218	_____	_____	_____	_____

### ***Common Compliance Requirements***

The compliance requirements for HUD Programs are divided into two parts. This section contains the first part which are general requirements pertaining to more than one program area. These areas (i.e., Cash Management, Federal Financial Reports, and Marketing and Nondiscrimination) should be tested if they are applicable to the audited entity. It is essential that the auditor review these requirements because failure to comply, could have a material impact on an organization's financial statements including those prepared for Federal programs. (HUD, Ch. 2, par. 2-1 and AICPA TPA Sec. 6985)



*The procedures indicated below are only recommended. They may or may not be appropriate to all programs. Auditors should test all key attributes of programs for compliance and justify in the working papers why a particular attribute has not been tested.*

Do the working papers document the procedures performed and provide appropriate and adequate conclusions for procedures performed on the compliance requirements for:

Cash Management? (HUD, Ch. 2, pars. 2-2b. 1-.7)

<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
H219	_____	_____	_____	_____

Federal Financial Reports? (HUD, Ch. 2, par. 2-3A)

H220	_____	_____	_____	_____
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Marketing? (HUD, Ch. 4, par. 4-5A)

H221	_____	_____	_____	_____
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Nondiscrimination? (HUD, Ch. 5, par. 5-5B)

H222	_____	_____	_____	_____
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### ***Program Specific Compliance Requirements***

The specific compliance requirements for the following programs are contained in separate chapters of the HUD Audit Guide IG 2000.4.

- Chapter 4, Section 8 Guidance
- Chapter 5, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages and Section 202, Direct Loans Audit Guidance and Sample Financial Statements
- Chapter 6, Insured Development Cost Certification Audit Guidance
- Chapter 7, GNMA Issuers of Mortgage-Backed Securities Audit Guidance
- Chapter 8, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance and Analysis of Net Worth Requirements
- Chapter 9, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance

*The procedures indicated in these chapters are only recommended. They may or may not be appropriate to all programs. Auditors should test all key attributes of programs for compliance and justify in the working papers why a particular attribute has not been tested.*

Has the auditor appropriately determined which chapter applies to the audit and considered the procedures and key areas in those chapters? (HUD, Chs. 4 through 9)

H223	_____	_____	_____	_____
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Do the working papers indicate that all specific compliance requirements have been:

Identified?

H224	_____	_____	_____	_____
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Evaluated?

H225	_____	_____	_____	_____
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Do the working papers indicate that all appropriate procedures have been performed and that appropriate conclusions have been drawn? (The auditor should justify why he/she did not test a particular compliance requirement)

H226	_____	_____	_____	_____
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	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
<u>A. Chapter 4, Section 8 Audit Guidance—Working Paper Areas</u>					
Have the <u>specific</u> compliance requirements been <u>addressed</u> :					
Management, Maintenance and Replacement Reserve of Capital Items?	H227	_____	_____	_____	_____
Application, Eligibility, and Reexamination of Tenants?	H228	_____	_____	_____	_____
Security Deposits?	H229	_____	_____	_____	_____
<u>B. Chapter 5, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages and Section 202 Direct Loans—Working Paper Areas</u>					
Have the <u>specific</u> compliance requirements been <u>addressed</u> :					
Mortgage Status?	H230	_____	_____	_____	_____
Replacement Reserve?	H231	_____	_____	_____	_____
Residual Receipts?	H232	_____	_____	_____	_____
Security Deposits?	H233	_____	_____	_____	_____
Cash Receipts?	H234	_____	_____	_____	_____
Cash Distributions?	H235	_____	_____	_____	_____
Tenant Application, Eligibility, and Recertification?	H236	_____	_____	_____	_____
Management Functions?	H237	_____	_____	_____	_____
<u>C. Chapter 6, Insured Development Cost Certification Audit Guidance—Working Paper Areas</u>					
Have the <u>specific</u> compliance requirements been <u>addressed</u> :					
Cash Management?	H238	_____	_____	_____	_____
Accounting System?	H239	_____	_____	_____	_____
Cut-Off Timing and Eligibility of Costs?	H240	_____	_____	_____	_____
Identity of Interest?	H241	_____	_____	_____	_____
<u>D. Chapter 7, GNMA Issuers of Mortgage-Backed Securities—Working Paper Areas</u>					
Have the <u>specific</u> compliance requirements been <u>addressed</u> :					
Eligibility to Issue Mortgage-Backed Securities?	H242	_____	_____	_____	_____
Review of Custodial Documents?	H243	_____	_____	_____	_____
Issuer's Administration of Pooled Mortgages?	H244	_____	_____	_____	_____
Review of Monthly Accounting Reports and Quarterly Submissions?	H245	_____	_____	_____	_____
Securities Marketing and Trading Practices?	H246	_____	_____	_____	_____
GNMA Adjusted Net Worth?	H247	_____	_____	_____	_____

E. Chapter 8, HUD-Approved Title II Nonsupervised  
Mortgagees and Loan Correspondents Audit Guidance and  
Analysis of Net Worth Requirements—Working Paper Areas

Have the *specific* compliance requirements been *addressed*:

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Quality Control Plan?	H248	_____	_____	_____	_____
Branch Office Operations?	H249	_____	_____	_____	_____
Loan Origination?	H250	_____	_____	_____	_____
Loan Settlement?	H251	_____	_____	_____	_____
Loan Servicing?	H252	_____	_____	_____	_____
Escrow Accounts?	H253	_____	_____	_____	_____
Section 235 Assistance Payments?	H254	_____	_____	_____	_____
Kickbacks?	H255	_____	_____	_____	_____

F. Chapter 9, HUD-Approved Title I Nonsupervised Lenders  
and Loan Correspondents Audit Guidance—Working Paper  
Areas

Have the *specific* compliance requirements been *addressed*:

Branch Office Operations?	H256	_____	_____	_____	_____
Loan Origination?	H257	_____	_____	_____	_____
Loan Disbursement?	H258	_____	_____	_____	_____
Loan Servicing?	H259	_____	_____	_____	_____
Referral Fees?	H260	_____	_____	_____	_____

# QRP Section 5800

## ***Prospective Financial Statement Engagement Checklist***

### **Instructions for Use of the Checklist for Review of Prospective Financial Statement Engagements**

This checklist was developed for use by reviewers of prospective financial statement engagements. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Review Division at 212/575-6650.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of prospective financial statements. All "No" answers must be thoroughly explained in Section IV of this checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to prospective financial statements. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate prospective financial statements. These additional materials include the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Prospective Financial Statements*, or other similarly comprehensive disclosure materials, and the AICPA Industry Audit Guide *Prospective Financial Statements*.

#### **Explanation of References:**

- AT     Reference to section number in *AICPA Professional Standards* (vol. 1)
- APFS   AICPA Audit and Accounting Guide *Prospective Financial Statements*
- ET     Code of Professional Conduct *AICPA Professional Standards* (vol. 2)
- SOP    AICPA Statement of Position
- QC     Quality Control Standards *AICPA Professional Standards* (vol. 2)

## ENGAGEMENT PROFILE

Engagement Code No. \_\_\_\_\_ Office \_\_\_\_\_

Partner \_\_\_\_\_ Date of Financial Statements \* \_\_\_\_\_

Manager \_\_\_\_\_ Date of Report \_\_\_\_\_

Date Report Released \_\_\_\_\_

The responsibility of this engagement involves reporting on:

1. ☐ compiled forecast ☐ other prospective financial information  
☐ compiled projection (describe) \_\_\_\_\_  
☐ examination of prospective financial statements \_\_\_\_\_

2. that (include) (omit) substantially all required disclosures and

3. that (include) (do not include) supplementary information.

The prospective financial statements are for an entity that is a (an):

- ☐ independent entity ☐ subsidiary, division or branch  
☐ consolidated or combined group ☐ other (explain)

The prospective financial statements cover an (annual) (interim) reporting period.

Date that the fee for the prior year's engagement was paid, if applicable: \_\_\_\_\_

Type of industry: \_\_\_\_\_

Complex or troublesome assumptions and key factors: \_\_\_\_\_

Hours on this engagement:

Partner \_\_\_\_\_

Manager (or equivalent) \_\_\_\_\_

Senior \_\_\_\_\_

Other \_\_\_\_\_

Total this office \_\_\_\_\_

Total budgeted \_\_\_\_\_

\* \* \* \* \*

Date Engagement Review Performed \_\_\_\_\_ Date Checklist Reviewed  
by Team Captain \_\_\_\_\_

Reviewer \_\_\_\_\_ Signature \_\_\_\_\_

\* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

**Checklist for Review of Prospective Financial Statement Engagements****Contents**

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## I. REPORT AND FINANCIAL STATEMENTS

	<u>QUES.</u>	<u>N/A *</u>	<u>YES</u>	<u>NO</u>	<u>REF. **</u>
<b>Title</b>					
For a forecast, does the title describe the nature of the presentation and include the word "forecast" or "forecasted"? (APFS Sec. 400.05)	P101	_____	_____	_____	_____
For a projection, does the title not imply that the presentation is a forecast?	P102	_____	_____	_____	_____
For a projection, is the title descriptive of the presentation?	P103	_____	_____	_____	_____
Does the title describe or refer to any significant hypothetical assumptions?	P104	_____	_____	_____	_____
Does the title indicate the prospective period covered and use the wording "ending" to indicate its prospective nature?	P105	_____	_____	_____	_____
<b>Presentation</b>					
Are the following minimum financial statement items disclosed? (APFS Sec. 400.06)					
(a) Sales or gross revenues?	P106	_____	_____	_____	_____
(b) Gross profit or cost of sales?	P107	_____	_____	_____	_____
(c) Unusual or infrequently occurring items?	P108	_____	_____	_____	_____
(d) Provision for income taxes?	P109	_____	_____	_____	_____
(e) Discontinued operations or extraordinary items?	P110	_____	_____	_____	_____
(f) Income from continuing operations?	P111	_____	_____	_____	_____
(g) Net income?	P112	_____	_____	_____	_____
(h) Primary and fully diluted earnings per share?	P113	_____	_____	_____	_____
(i) Significant changes in financial position?	P114	_____	_____	_____	_____
(j) A description of what the responsible party intends the financial forecast to present, a statement that the assumptions are based on the responsible party's judgment at the time the prospective information was prepared, and a caveat that the forecasted results may not be achieved?	P115	_____	_____	_____	_____
(k) Summary of significant assumptions?	P116	_____	_____	_____	_____
(l) Summary of significant accounting policies?	P117	_____	_____	_____	_____
If item, j or l above is omitted, is the accountant's report modified to reflect this deficiency? (APFS Sec. 400.08)	P118	_____	_____	_____	_____
If item k above is not presented, did the accountant omit his report on the prospective financial statements? (AT Sec. 200.14)	P119	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If one or more of the omitted items applicable (a through i, above) cannot be derived from the information presented, was the guidance in SOP 90-1 followed?	P120	_____	_____	_____	_____
If the forecast contains a range, is the range narrow enough to insure that the presentation is meaningful to users? (APFS Sec. 400.19)	P121	_____	_____	_____	_____
If the presentation is other than a single-point estimate, is there a clear indication that the presentation does not necessarily represent the best or worst possible alternatives? (APFS Sec. 400.21)	P122	_____	_____	_____	_____
If the forecast is supplemented by a financial projection are both the forecast and projection clearly labeled? (APFS Sec. 400.20)	P123	_____	_____	_____	_____
<b>Disclosure on the Face of Statements</b>					
Is each page of the prospective financials referenced to the summaries of significant assumptions and accounting policies? (APFS Sec. 400.10)	P124	_____	_____	_____	_____
<b>Assumptions</b>					
Has an introduction preceding the summary of assumptions been provided? (APFS Sec. 400.28)	P125	_____	_____	_____	_____
For a projection, is an introduction presented that clearly explains any special purpose and limitation of the usefulness of the prospective financial statements? (APFS Sec. 400.29P)	P126	_____	_____	_____	_____
Does the introduction include:					
A description of what the responsible party intends the financial forecast to present? (APFS Sec. 400.28)	P127	_____	_____	_____	_____
A statement that assumptions are not all-inclusive? (APFS Sec. 400.28)	P128	_____	_____	_____	_____
If the presentation is a range, a statement that the responsible party expects the results to fall within a range although there can be no assurance that they will? (APFS Sec. 400.30)	P129	_____	_____	_____	_____
A statement that the assumptions are based on the responsible party's judgement at the time the prospective information was prepared? (APFS Sec. 400.28)	P130	_____	_____	_____	_____
A caveat that the prospective results may not be attained? (APFS Sec. 400.28)	P131	_____	_____	_____	_____
Was the date of preparation presented in the introduction or elsewhere in the prospective financial statements? (APFS Sec. 400.11)	P132	_____	_____	_____	_____
Do the assumptions disclosed include (APFS Sec. 400.23):					
Assumptions about which there is a reasonable possibility of the occurrence of a variation that may significantly affect the prospective results (sensitive assumptions)?	P133	_____	_____	_____	_____



	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Assumptions about anticipated conditions expected to be significantly different from current conditions which are not otherwise reasonably apparent?	P134	_____	_____	_____	_____
Other matters deemed important to the prospective information or its interpretation?	P135	_____	_____	_____	_____
For a projection, did the responsible party identify which assumptions in the projection are hypothetical? (APFS Sec. 400.23P)	P136	_____	_____	_____	_____
For a projection, if the hypothetical assumptions are improbable, does the above disclosure so indicate? (APFS Sec. 400.23P)	P137	_____	_____	_____	_____
Does the presentation indicate which assumptions disclosed appeared particularly sensitive at the time of preparation? (APFS Sec. 400.24)	P138	_____	_____	_____	_____
If an updated prospective presentation is issued, is the reason for updating disclosed in the summary of significant assumptions? (APFS Sec. 400.38)	P139	_____	_____	_____	_____
<b>Accounting Principles and Policies</b>					
Is the summary of significant accounting policies used in preparing the prospective financials disclosed or cross-referenced to a document that contains this information? (APFS Sec. 400.12)	P140	_____	_____	_____	_____
If historical financial statements for prospective periods are prepared on a comprehensive basis of accounting other than generally accepted accounting principles, are the prospective financial statements prepared on same basis? (APFS Sec. 400.13)	P141	_____	_____	_____	_____
Is the basis used disclosed (including statement titles) along with the fact that the disclosed basis is different from generally accepted accounting principles? (APFS Sec. 400.14)	P142	_____	_____	_____	_____
If a different comprehensive basis of accounting is used for the prospective financial statements than is expected to be used for the historical financial statements for the prospective period, is the use of the different basis disclosed? (APFS Sec. 400.15)	P143	_____	_____	_____	_____
If deemed appropriate, are differences in financial position and results of operations arising from the use of different accounting principles reconciled and disclosed? (APFS Sec. 400.13)	P144	_____	_____	_____	_____
If the prospective financial statements give effect to a change in accounting principle from one used in prior period historical financial statements, is the change reported in the prospective information? (APFS Sec. 400.16)	P145	_____	_____	_____	_____
<b>Report—Compilation</b>					
Does the accountant's standard report on a compilation of prospective financial statements include (AT Sec. 200.16):					
An identification of the prospective financial statements presented by the responsible party?	P146	_____	_____	_____	_____
A statement that the accountant has compiled the prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants?	P147	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
A statement that a compilation is limited in scope and does not enable the accountant to express an opinion or any other form of assurance on the prospective financial statements or the assumptions?	P148	_____	_____	_____	_____
A caveat that the prospective results may not be achieved?	P149	_____	_____	_____	_____
A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?	P150	_____	_____	_____	_____
If a projection, does the accountant's report include a separate paragraph describing the limitations on the usefulness of the presentation? (AT Sec. 200.18)	P151	_____	_____	_____	_____
If a range is presented, does the report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range? (AT Sec. 200.19)	P152	_____	_____	_____	_____
Was the date of the completion of the compilation procedures used as date of the report? (AT Sec. 200.20)	P153	_____	_____	_____	_____
If the accountant was not independent, did the accountant specifically disclose a lack of independence after the last paragraph of the standard compilation report? (AT Sec. 200.21)	P154	_____	_____	_____	_____
If the prospective financial statements were included in a document that also contains historical financial statements and the accountant's report thereon, was a reference to the accountant's report on the historical statements made? (AT Sec. 200.22)	P155	_____	_____	_____	_____
If the historical financial statements that appear in the document were summarized and presented with the prospective financial statements for comparative purposes, was a reference to the accountant's report on the historical financial statements made? (AT Sec. 200.22)	P156	_____	_____	_____	_____
If the accountant expands his report to emphasize a matter, was the information presented in a separate paragraph of the accountant's report? (AT Sec. 200.23)	P157	_____	_____	_____	_____
When emphasizing a matter, was the accountant careful not to give the impression that assurance is being expressed or the degree of responsibility was being expanded concerning such information?	P158	_____	_____	_____	_____
If the accountant compiled prospective financial statements that contain presentation deficiencies or omit disclosures other than those relating to significant assumptions, is the deficiency or omission clearly indicated in the report? (AT Sec. 200.24-.26)	P159	_____	_____	_____	_____
If the prospective financial statements are presented on a comprehensive basis of accounting other than generally accepted accounting principles and do not include disclosure of the basis of accounting used, is the basis disclosed in the accountant's report? (AT Sec. 200.25)	P160	_____	_____	_____	_____

#### Report—Examination

Does the accountant's standard report on an examination of the prospective financial statements include (AT Sec. 200.31):

An identification of the prospective financial statements presented?

P161 \_\_\_\_\_

A statement that the examination was made in accordance with AICPA standards and a brief description of the nature of such an examination?

P162 \_\_\_\_\_

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
The accountant's opinion that the prospective financial statements are presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast or a reasonable basis for the projection given the hypothetical assumptions?	P163	_____	_____	_____	_____
A caveat that the prospective results may not be achieved?	P164	_____	_____	_____	_____
A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?	P165	_____	_____	_____	_____
In the examination of a projection, is the opinion regarding assumptions conditioned on the hypothetical assumptions? (AT Sec. 200.33)	P166	_____	_____	_____	_____
Does the report include a separate paragraph that describes the limitations on the usefulness of the presentation? (AT Sec. 200.33)	P167	_____	_____	_____	_____
If a range is presented, does the report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range? (AT Sec. 200.34)	P168	_____	_____	_____	_____
Is the date of completion of the accountant's examination procedures used as the date of the report? (AT Sec. 200.35)	P169	_____	_____	_____	_____
If, in the accountant's opinion, the prospective financial statements depart from AICPA presentation guidelines, was a qualified or adverse report issued? (AT Sec. 200.36)	P170	_____	_____	_____	_____
If the presentation, including the summary of significant assumptions, fails to disclose significant assumptions, did the accountant describe the assumptions in the report and issue an adverse opinion? (AT Sec. 200.40)	P171	_____	_____	_____	_____
If the accountant believes that one or more significant assumptions do not provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions, was an adverse opinion issued? (AT Sec. 200.36)	P172	_____	_____	_____	_____
If the accountant's examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, was an opinion disclaimed and the scope of the limitation described? (AT Sec. 200.36)	P173	_____	_____	_____	_____
In a qualified opinion, did the accountant state all of the substantive reasons for the modification of the opinion and describe the departure from AICPA presentation guidelines in a separate paragraph of the report? (AT Sec. 200.37)	P174	_____	_____	_____	_____
For the accountant's report (AT Sec. 200.37-.39):					
Does the opinion include the words "except" or "exception" as the qualifying language?	P175	_____	_____	_____	_____
Does the opinion paragraph refer to the separate explanatory paragraph?	P176	_____	_____	_____	_____
If a measurement departure, an unreasonable assumption, or a limitation on the scope of the accountant's examination has led the accountant to conclude that an unqualified opinion cannot be issued, was an adverse opinion issued or a disclaimer of opinion made?	P177	_____	_____	_____	_____
If an adverse opinion, did the accountant state all of the substantive reasons for the adverse opinion in a separate paragraph?	P178	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
If applicable, does the opinion state that the presentation is not in conformity with presentation guidelines?	P179	_____	_____	_____	_____
Does the opinion paragraph refer to the explanatory paragraph?	P180	_____	_____	_____	_____
When applicable, does the opinion paragraph state that, in the accountant's opinion, the assumptions do not provide a reasonable basis for the prospective financial statements?	P181	_____	_____	_____	_____
<b>Report—Examination—Public Offering</b>					
Does the accountant have a reasonable basis to consent to the use of the report in a 1933 Act registration statement as of the consent date? (APFS Sec. 730.04)	P182	_____	_____	_____	_____
Did the accountant perform the applicable steps below so as to determine that he/she had a reasonable basis to consent (APFS Sec. 730.04):					
Did the accountant perform procedures for the period from the date of examination up to the consent date and as is reasonable and practical in circumstances?	P183	_____	_____	_____	_____
Did the accountant read latest interim financials, operating reports, and any relevant information such as budgets?	P184	_____	_____	_____	_____
Did the accountant consider prospective results in relation to actual results achieved in the interim period?	P185	_____	_____	_____	_____
Did the accountant inquire whether or not accounting principles used are consistent with the principles used in preparing the forecast?	P186	_____	_____	_____	_____
Did the accountant read the prospectus and other pertinent portions of the registration statement and consider that information in relation to prospective results and summary of significant assumptions?	P187	_____	_____	_____	_____
Did the accountant inquire of and obtain written representations from responsible parties as to whether or not there are any events, plans, or expectations that may require the forecast to be modified or that should be disclosed in order that the forecast reflect the responsible parties' judgement based on present circumstances of the expected conditions and its expected course of action?	P188	_____	_____	_____	_____
Did the accountant read the minutes of the board of directors and related committees?	P189	_____	_____	_____	_____
Did the accountant make additional inquiries or perform such procedures as were considered necessary and appropriate to dispose of questions that arose in carrying out the foregoing procedures?	P190	_____	_____	_____	_____
If the accountant believes that the forecast (including summary of significant assumptions) should be revised as a result of the above procedures, was the client requested to revise its forecast and, if so engaged, examine the revised forecast? (APFS Sec. 730.05)	P191	_____	_____	_____	_____
If the client does not make appropriate revisions, did the accountant refuse to consent to the use of the report in the registration statement? (APFS Sec. 730.05)	P192	_____	_____	_____	_____
Is the accountant's consent in writing? (APFS Sec. 730.06)	P193	_____	_____	_____	_____

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Is the consent for the 1933 Act filing manually signed and dated? (APFS Sec. 730.06)	P194	_____	_____	_____	_____
Is the consent dated at or near the effective date of registration statement? (APFS Sec. 730.07)	P195	_____	_____	_____	_____
Is the "experts" section of the registration statement worded so that there is no implication that the forecast has been prepared by the accountant or that the forecast is not the direct responsibility of the responsible party? (APFS Sec. 730.09)	P196	_____	_____	_____	_____

**II. WORKING PAPERS PROSPECTIVE FINANCIAL STATEMENTS**

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
Are the accountant's working papers in connection with the compilation or examination of prospective financial statements appropriate in the circumstances? (APFS Sec. 600.11 for compilations and APFS Sec. 700.38 for examinations)	P301	_____	_____	_____	_____
For an examination, do the working papers indicate that (APFS Sec. 700.38):					
The work was adequately planned and supervised?	P302	_____	_____	_____	_____
The process by which the entity develops its prospective financial statements was considered in determining the scope of the examination?	P303	_____	_____	_____	_____
Sufficient evidence was obtained to provide a reasonable basis for the accountant's report?	P304	_____	_____	_____	_____

---

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

## III. FUNCTIONAL AREAS

	<u>QUES.</u>	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Independence (QC Sec. 10.07a)</b>					
If anything has been noted during the review which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered? (ET Sec. 101)	P401	_____	_____	_____	_____
Have personnel been appropriately advised as to need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)	P402	_____	_____	_____	_____
Was appropriate assurance of independence obtained from other firms engaged to examine segments or component units of the prospective financial information? (QC Sec. 90.10)	P403	_____	_____	_____	_____
Were the fees (billed/unbilled) for the prior year's services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)	P404	_____	_____	_____	_____
<b>Assigning Personnel to Engagements (QC Sec. 10.07b)</b>					
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel? (QC Sec. 90.12)	P405	_____	_____	_____	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided? (QC Sec. 90.12)	P406	_____	_____	_____	_____
<b>Consultation (QC Sec. 10.07c)</b>					
Was there appropriate consultation and documentation:					
In situations specified by firm policy?	P407	_____	_____	_____	_____
Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)	P408	_____	_____	_____	_____
Were the firm's conclusions consistent with professional standards?	P409	_____	_____	_____	_____
If the engagement records indicated a difference of opinion between personnel and/or and a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented? (QC Sec. 90.14)	P410	_____	_____	_____	_____
<b>Supervision (QC Sec. 10.07d)</b>					
Were appropriate and knowledgeable engagement personnel involved in the planning process? (APFS Sec. 700.06 and .07)	P411	_____	_____	_____	_____
Does it appear that planning was adequately documented in the working papers, including any changes in the original plan? (AU Secs. 311 and 339.05)	P412	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

	<u>QUES.</u>	<u>N/A</u>	<u>YES</u>	<u>NO</u>	<u>REF.</u>
Did the partner (or manager) approve the overall plan as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)	P413	_____	_____	_____	_____
Does it appear that hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)	P414	_____	_____	_____	_____
Were all forms, checklists, or questionnaires, if any, <u>required by firm policy</u> for the following areas adequately completed and modified, where appropriate, for the engagement:					
Planning checklist?	P415	_____	_____	_____	_____
Work programs?	P416	_____	_____	_____	_____
Prospective financial statement disclosures?	P417	_____	_____	_____	_____
Working papers and prospective financial statement reviews?	P418	_____	_____	_____	_____
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	P419	_____	_____	_____	_____
Were the firm's guidelines for the form and content of working papers complied with?	P420	_____	_____	_____	_____
If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and prospective financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?	P421	_____	_____	_____	_____
<b>Advancement</b> (QC Sec. 10.07g)					
If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 10.07g)	P422	_____	_____	_____	_____
<b>Acceptance and Continuance of Clients</b> (QC Sec. 10.07h)					
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)	P423	_____	_____	_____	_____
<b>Professional Development</b> (QC Sec. 10.07f)					
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)	P424	_____	_____	_____	_____



**IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS**

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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\* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

Page  
NumberQuestion  
NumberExplanatory CommentsDisposition  
of Comments

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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NOTE: Attach additional sheets if required.

**V. CONCLUSIONS**

Explain Below the Reasons for any "Yes" Answers. Be Specific.

Based on the work performed, did anything come to your attention that caused you to believe that:

- |   |                     |
|---|---------------------|
| 1. The firm did not perform the engagement in all material respects in accordance with professional standards (see ET 202)?                                   | YES* _____ NO _____ |
| 2. The prospective financial statements were not presented fairly in all material respects and the firm's report was not appropriately modified (see ET 203)? | YES _____ NO _____  |
| 3. The firm's report was not appropriate in the circumstances?  | YES _____ NO _____  |
| 4. The documentation on this engagement does not support the firm's report on the prospective financial statements?   | YES _____ NO _____  |
| 5. The firm did not comply with its policies and procedures on this engagement in all material respects?  | YES _____ NO _____  |
- 
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\* If this question is answered "yes," see additional guidance contained on pages SECPS § 2000.67-.73 of the *SECPS Reference Manual* and PCPS § 2000.70-.77 of the *PCPS Reference Manual*.

## QRP Section 6000

# SUMMARIES OF ON-SITE REVIEW ENGAGEMENT FINDINGS

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### General

The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. (See Appendix 2 to the *Standards*.)

"No" answers on engagement checklists should be summarized to facilitate the above consideration. (See step III.8 of the Team Captain's Checklist—On-Site Quality Reviews.) The format of summarization is left to the discretion of the reviewer.

The following summaries have been developed and are included in this section of the manual.

- a. Summary Audit Engagement Checklist (QRP Section 6100)
- b. Summary Review Engagement Checklist (QRP Section 6200)
- c. Summary Compilation Engagement Checklist (QRP Section 6300)

The format of these summary checklists is consistent with that of the engagement checklists contained in section 5000 of this manual. Since the engagement checklists are developed for typical situations, they, as well as the summaries, should be augmented, as necessary, to include the reviewed firm's specific quality control policies and procedures applicable to engagements.

Reviewers may use these summary checklists or develop their own summaries.

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<b>6300</b>	<b>Summary Compilation Engagement Checklist</b>

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# QRP Section 6100

## Summary Audit Engagement Checklist

### Summary Checklist for Reviews of Audit Engagements

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## I. REPORT AND FINANCIAL STATEMENTS

	QUES.	Engagement Code	MFC Ref.*
<b>Report and Disclosure Considerations Applicable to All Audit Engagements</b>			
<b>Auditor's Report</b>			
Is the report dated in conformity with the requirements of professional standards?	A101	_____	_____
Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards?	A102	_____	_____
Does the report cover all periods for which financial statements are presented?	A103	_____	_____
If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph?	A104	_____	_____
If supplemental information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking?	A105	_____	_____
For special reports, have the professional standards been complied with regarding:			
Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles?	A106	_____	_____
Specified elements, accounts or items of a financial statement?	A107	_____	_____
Compliance with aspects of agreements or regulatory requirements relating to audited financial statements?	A108	_____	_____
Financial presentations to comply with contractual agreements or regulatory provisions?	A109	_____	_____
Financial information that requires a prescribed form of auditor's report?	A110	_____	_____
For reports on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States, has there been compliance with professional standards?	A111	_____	_____
<b>Financial Statements and Notes</b>			
<b>General</b>			
Are the financial statements suitably titled?	A112	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.



	QUES.	Engagement Code	MFC Ref.*
Is the presentation appropriate and disclosure adequate regarding:			
Significant accounting policies?	A113	— — — — —	— — — — —
Accounting changes?	A114	— — — — —	— — — — —
Comparative financial statements?	A115	— — — — —	— — — — —
Business combinations?	A116	— — — — —	— — — — —
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? *	A117	— — — — —	— — — — —
If an individual or entity controls a group of related entities, did the auditor consider the need for combined financial statements?	A118	— — — — —	— — — — —
Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?	A119	— — — — —	— — — — —
Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instrument disclosed?	A120	— — — — —	— — — — —
Are required disclosures made concerning related party transactions?	A121	— — — — —	— — — — —
Are required disclosures made regarding significant dependence on one or more major customers or suppliers?	A122	— — — — —	— — — — —
Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed?	A123	— — — — —	— — — — —
Are foreign operations and export sales adequately disclosed?	A124	— — — — —	— — — — —
Are nonmonetary transactions properly accounted for and disclosed?	A125	— — — — —	— — — — —
With respect to contingencies and commitments:			
Are loss contingencies disclosed and/or accrued as appropriate?	A126	— — — — —	— — — — —
Are other contingencies and commitments adequately disclosed?	A127	— — — — —	— — — — —
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?	A128	— — — — —	— — — — —
Is the required information on defined benefit pension plans adequately disclosed?	A129	— — — — —	— — — — —
Are all other pension plans adequately disclosed?	A130	— — — — —	— — — — —
Is the required information on defined benefit postretirement plans adequately disclosed?	A131	— — — — —	— — — — —
Are postemployment health care and life insurance benefits under FAS No. 81 and FASB Technical Bulletin 87-1 properly disclosed?	A132	— — — — —	— — — — —

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
If the entity is or has been a "development stage enterprise," are adequate disclosures made?	A133	_____	_____
Do the financial statements, where required, include appropriate presentations of:			
Segment information?	A134	_____	_____
Futures contracts?	A135	_____	_____
If there are prior period adjustments:			
Are only corrections of an error in the financial statements of a prior period and adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries reported as prior period adjustments (excluding the manner of reporting accounting changes retroactively)? Is the disclosure adequate?	A136	_____	_____
If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated?	A137	_____	_____
<b>Balance Sheet</b>			
Is the presentation appropriate and disclosure adequate regarding:			
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?	A138	_____	_____
Valuation allowances?	A139	_____	_____
Restricted cash, including compensating balances?	A140	_____	_____
Marketable equity securities?	A141	_____	_____
Other marketable securities?	A142	_____	_____
Accounts and Notes Receivable:			
Unbilled receivables?	A143	_____	_____
Loans and related origination fees?	A144	_____	_____
Effect of interest rates which do not reflect market rates?	A145	_____	_____
Receivables related to troubled debt restructurings?	A146	_____	_____
Other receivables?	A147	_____	_____
Inventories?	A148	_____	_____
Investments?	A149	_____	_____
Property and equipment, including accounting for assets of discontinued operations, investment credit, and capitalized interest?	A150	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.
Sales-type, direct financing, and operating leases of lessors?	A151	— — — — —	— — — — —
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges?	A152	— — — — —	— — — — —
Pledged assets?	A153	— — — — —	— — — — —
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	A154	— — — — —	— — — — —
Current liabilities?	A155	— — — — —	— — — — —
Short-term liabilities expected to be refinanced?	A156	— — — — —	— — — — —
Notes payable and other debt:			
Maturities and rates?	A157	— — — — —	— — — — —
Other terms and covenants?	A158	— — — — —	— — — — —
Effect of interest rates which do not reflect market rates?	A159	— — — — —	— — — — —
Effect of troubled debt restructurings?	A160	— — — — —	— — — — —
Effect of early extinguishment of debt?	A161	— — — — —	— — — — —
Maturities and sinking fund requirements for the next five years?	A162	— — — — —	— — — — —
Capital leases of lessees?	A163	— — — — —	— — — — —
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?	A164	— — — — —	— — — — —
Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	A165	— — — — —	— — — — —
Stock option and stock purchase plans?	A166	— — — — —	— — — — —
Stock subscriptions receivable?	A167	— — — — —	— — — — —
Retained earnings, including appropriations thereof and restrictions on dividends?	A168	— — — — —	— — — — —
Changes in stockholders' equity?	A169	— — — — —	— — — — —
Redemption requirements on capital stock for the next five years?	A170	— — — — —	— — — — —
<b>Income Statement</b>			
Are the important components of the income statement separately disclosed?	A171	— — — — —	— — — — —

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Is the presentation appropriate and disclosure adequate regarding:			
Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?	A172	— — — — —	—
Gains and losses, realized and unrealized, from marketable equity securities?	A173	— — — — —	—
Income and income taxes on investments in securities accounted for on the equity method?	A174	— — — — —	—
Research and development costs?	A175	— — — — —	—
Computer software costs?	A176	— — — — —	—
Interest costs?	A177	— — — — —	—
Discount or premium on notes receivable or payable?	A178	— — — — —	—
Depreciation?	A179	— — — — —	—
Compensatory stock issuance plan?	A180	— — — — —	—
Deferred compensation agreements?	A181	— — — — —	—
Sales transactions in which the buyer has a right to return the product?	A182	— — — — —	—
Product financing arrangements?	A183	— — — — —	—
Operating leases and rent expense of lessees?	A184	— — — — —	—
Income taxes, computed under the early application of AC Sec. 125 (FASB No. 109), to include:			
The types of temporary differences that cause significant portions of a deferred tax liability or asset?	A185	— — — — —	—
Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?	A186	— — — — —	—
Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations?	A187	— — — — —	—
Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?	A188	— — — — —	—
Other information concerning tax expense, benefits and the effects of income taxes?	A189	— — — — —	—
Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?	A190	— — — — —	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Discontinued operations?	A191	_____	_____
Extraordinary and unusual items?	A192	_____	_____
Earnings per share information?	A193	_____	_____
<b>Statement of Cash Flows</b>			
Is a statement of cash flows presented for each period for which results of operations are provided?	A194	_____	_____
Does it report cash provided or used by investing, financing, and operating activities?	A195	_____	_____
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?	A196	_____	_____
Does it provide a reconciliation between net income and net cash flow from operating activities?	A197	_____	_____
Are noncash investing and financing activities disclosed?	A198	_____	_____
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?	A199	_____	_____
Are cash equivalents limited to short-term, highly liquid investments that are both readily convertible to known amounts of cash and of an original maturity value of three months or less? Is the enterprise's policy for determining which items are treated as cash equivalents disclosed?	A200	_____	_____
Do the financial statements and notes not report an amount of cash flows per share?	A201	_____	_____
Do components of the financial statements appear to have been shown at "gross" and not "net" value?	A202	_____	_____
<b>Other</b>			
If the industry in which the client is operating is covered by an audit and accounting guide, are the suggested format, statements and disclosures consistent with the guide?	A203	_____	_____
<b>Report and Disclosure Considerations Unique to State or Local Governmental Entities</b>			
<b>Auditor's Reports</b>			
Does (do) the auditor's report(s) on the general purpose or component unit financial statements include all required matters concerning the financial position and results of financial operations of the governmental unit and cash flows of proprietary and nonexpendable trust funds?	G101	_____	_____
<b>Financial Statements and Notes</b>			
<b>General</b>			
Are the following general purpose or component unit financial statements presented:			
Combined Balance Sheet—All Fund Types and Account Groups?	G102	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Expendable Trust Funds?	G103	— — — — —	—
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (and similar governmental fund types for which annual budgets have been legally adopted)?	G104	— — — — —	—
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and Similar Trust Funds?	G105	— — — — —	—
Combined Statement of Cash Flows—All Proprietary Fund Types and Nonexpendable Trust Funds?	G106	— — — — —	—
Do the combined financial statements contain all funds and account groups that comprise the reporting entity, as defined in the notes?	G107	— — — — —	—
If totals by account are presented in the General Purpose Financial Statements, are the totals noted as memorandum only?	G108	— — — — —	—
If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in conformity with generally accepted accounting principles?	G109	— — — — —	—
Do interfund receivables equal interfund payables or are the differences explained in the notes?	G110	— — — — —	—
Are transfers to other funds recorded either as residual equity or operating transfers, as appropriate?	G111	— — — — —	—
Are special assessments receivables offset by deferred revenues?	G112	— — — — —	—
Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectable receivables?	G113	— — — — —	—
If separate financial statements of a component unit are issued, is the relationship of the component unit to the reporting or oversight entity disclosed?	G114	— — — — —	—
If a general fund is presented:			
Are the statements prepared on the modified accrual basis?	G115	— — — — —	—
Are significant sources of general fund revenues disclosed?	G116	— — — — —	—
Are expenditures classified by function?	G117	— — — — —	—
If special revenue funds are presented:			
Are the statements prepared on the modified accrual basis?	G118	— — — — —	—
Do the statements disclose the significant revenues and expenditures?	G119	— — — — —	—
If debt service funds are presented:			
Are the statements prepared on the modified accrual basis?	G120	— — — — —	—
Do the statements disclose the significant revenues and expenditures?	G121	— — — — —	—
If capital project funds are presented:			
Are the statements prepared on the modified accrual basis?	G122	— — — — —	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Do the statements disclose the significant revenues and expenditures?	G123	_____	_____
If enterprise funds are presented:			
Are the statements prepared on an accrual basis?	G124	_____	_____
Is the enterprise fund's liability for general obligation and special assessment debt, if any, included in the enterprise fund's financial statements?	G125	_____	_____
Are the restricted assets, liabilities payable from restricted assets, and a portion of retained earnings required to be segregated for debt service separately disclosed?	G126	_____	_____
Are operating and nonoperating revenues and expenses separately classified?	G127	_____	_____
Are property, plant and equipment properly reported on the balance sheet?	G128	_____	_____
If internal service funds are presented:			
Are the statements prepared on the accrual basis?	G129	_____	_____
Do the financial statements present the net billings to other funds as revenues and the related costs as expenses?	G130	_____	_____
Are long-term advances segregated from current amounts payable to other funds?	G131	_____	_____
Are property, plant and equipment properly reported on the balance sheet?	G132	_____	_____
If nonexpendable and/or pension trust funds are presented:			
Are the statements prepared on the accrual basis?	G133	_____	_____
Are the principal and income portions of trust fund equity classified in accordance with the trust document?	G134	_____	_____
If agency funds are presented:			
Are the balance sheets prepared on the modified accrual basis?	G135	_____	_____
If expendable trust funds are presented:			
Are the statements prepared on the modified accrual basis?	G136	_____	_____
Do the financial statements disclose the significant revenues and expenditures of each fund?	G137	_____	_____
If a general fixed asset account group is presented:			
Are land, buildings, equipment, and construction-in-progress separately classified?	G138	_____	_____
Where general fixed assets are depreciated, does the statement show the accumulated depreciation?	G139	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
<b>If a general long-term debt account group is presented:</b>			
Are general obligation term bonds and serial bonds separately disclosed?	G140	_ _ _ _ _	_ _ _ _ _
Are other long-term liabilities (accrued vacation, leases, workers' compensation, etc.) separately disclosed?	G141	_ _ _ _ _	_ _ _ _ _
Are amounts reported as amounts available for long-term debt and amounts to be provided properly stated?	G142	_ _ _ _ _	_ _ _ _ _
Questions G143 through G170 should be answered only if the combining or individual fund financial statements are presented as primary financial statements. The reviewer should evaluate whether the fund statements were complete in presentation for each fund or account group.			
<b>Are the following financial statements presented if necessary:</b>			
<b>General Fund:</b>			
Balance sheet?	G143	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenditures and changes in fund balances?	G144	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenditures and changes in fund balances—budget vs. actual?	G145	_ _ _ _ _	_ _ _ _ _
<b>Special Revenue Funds:</b>			
Balance sheet?	G146	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenditures and changes in fund balances?	G147	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenditures and changes in fund balances—budget vs. actual?	G148	_ _ _ _ _	_ _ _ _ _
<b>Debt Service Funds:</b>			
Balance sheet?	G149	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenditures and changes in fund balances?	G150	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenditures and changes in fund balances—budget vs. actual?	G151	_ _ _ _ _	_ _ _ _ _
<b>Capital Project Funds:</b>			
Balance sheet?	G152	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenditures and changes in fund balances?	G153	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenditures and changes in fund balances—budget vs. actual?	G154	_ _ _ _ _	_ _ _ _ _
<b>Enterprise Fund:</b>			
Balance sheet?	G155	_ _ _ _ _	_ _ _ _ _
Statement of revenues, expenses and changes in retained earnings?	G156	_ _ _ _ _	_ _ _ _ _
Statement of cash flows?	G157	_ _ _ _ _	_ _ _ _ _

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.



	QUES.	Engagement Code	MFC Ref.*
<b>Internal Service Funds:</b>			
Balance sheet?	G158	_____	_____
Statement of revenues, expenses and changes in retained earnings?	G159	_____	_____
Statement of cash flows?	G160	_____	_____
<b>Nonexpendable and Pension Trust Funds:</b>			
Balance sheet?	G161	_____	_____
Statement of revenues, expenses and changes in fund balances?	G162	_____	_____
Statement of cash flows?	G163	_____	_____
<b>Agency Funds:</b>			
Balance sheet?	G164	_____	_____
Combining statement of changes in assets and liabilities, if appropriate?	G165	_____	_____
<b>Expendable Trust Funds:</b>			
Balance sheet?	G166	_____	_____
Statement of revenues, expenditures and changes in fund balances?	G167	_____	_____
Statement of revenues, expenditures and changes in fund balances—budget vs. actual?	G168	_____	_____
If required, is a statement of changes in general fixed assets presented?	G169	_____	_____
If required, is a statement of changes in general long-term debt presented?	G170	_____	_____
<b>Other Note Disclosures</b>			
Is the presentation appropriate and are disclosures adequate regarding the following significant accounting policies:			
Definition of the governmental reporting entity, the criteria used to determine the scope of the reporting entity and specific reasons for excluding agencies that meet that criteria?	G171	_____	_____
If GASB No. 14 was applicable to the engagement (either as a result of the GASB's effective date or an early application of the GASB), are individual component unit disclosures included within the General Purpose Financial Statements, as well as a brief description of the component units, their relationship to the primary government and how the separate financial statements for the individual component units may be obtained?	G172	_____	_____
Basis of accounting applied to each fund?	G173	_____	_____
Revenue recognition policies, including:			
Definitions of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types?	G174	_____	_____
Description of revenue sources that are treated as "susceptible to accrual" under the modified accrual basis and those that are not?	G175	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
<b>Accounting for fixed assets concerning:</b>			
Classification in proprietary funds or general fixed assets account group?	G176	— — — — —	—
Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets?	G177	— — — — —	—
Depreciation methods and lives, including whether depreciation is reported on general fixed assets?	G178	— — — — —	—
Capitalization of interest costs during construction?	G179	— — — — —	—
Method of accounting and reporting for encumbrances?	G180	— — — — —	—
Claims and judgments?	G181	— — — — —	—
Interfund eliminations not apparent?	G182	— — — — —	—
Long-term liabilities related to proprietary funds, nonexpendable trust and pension funds, and special assessment debt? (Long-term liabilities expected to be repaid from governmental funds are accounted for in the General Long-Term Debt Account Group.)	G183	— — — — —	—
Valuation basis and significant or unusual accounting treatment for other assets, liabilities, and fund equity?	G184	— — — — —	—
Significant accounting policies on expenditures?	G185	— — — — —	—
Statement that the "total" columns, if any, on GPFS or CUFS are presented for analytical purposes only?	G186	— — — — —	—
<b>Basis on which each budget is prepared, including:</b>			
Treatment of encumbrances?	G187	— — — — —	—
Whether appropriations lapse at year end?	G188	— — — — —	—
Explanation of the differences, if any, between the budgetary basis and accrual or modified accrual basis used for financial reporting of governmental funds?	G189	— — — — —	—
Whether presented budgetary information has been amended?	G190	— — — — —	—
Separate summary of significant accounting policies for discrete presentations?	G191	— — — — —	—
<b>Is the presentation appropriate and are disclosures adequate regarding the following:</b>			
Classified balance sheets, where appropriate?	G192	— — — — —	—
Deferred compensation plans adopted under IRC 457?	G193	— — — — —	—
Capital leases of lessees?	G194	— — — — —	—
Operating leases and rent expense of lessees?	G195	— — — — —	—
Detail of the government's property tax calendar, including the lien, levy, due and collection dates?	G196	— — — — —	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Material noncompliance with finance-related legal and contractual provisions, including instances concerning budget amendments, expenditures exceeding appropriations, and debt exceeding legal limitations?	G197	— — — — —	— — — — —
Deposits with financial institutions and investments, including risk categories, uninsured deposits, and other disclosures required by professional standards?	G198	— — — — —	— — — — —
Terms or circumstances concerning repurchase or reverse repurchase agreements?	G199	— — — — —	— — — — —
Receivables:			
Loans or advances to other funds of the governmental units?	G200	— — — — —	— — — — —
Taxes receivable?	G201	— — — — —	— — — — —
Grant and other receivables from other governments?	G202	— — — — —	— — — — —
Joint ventures and other investments?	G203	— — — — —	— — — — —
Pooled cash and investment account?	G204	— — — — —	— — — — —
If this entity has public entity risk pools (cooperative group of governmental entities) did the entity:			
Recognize pool premiums as revenue over the contract period?	G205	— — — — —	— — — — —
Recognize claims costs in the period in which the event triggers coverage under the policy?	G206	— — — — —	— — — — —
Report the estimated loss of a claim if it is both probable and reasonably estimable?	G207	— — — — —	— — — — —
Fixed assets, including changes during the period and capitalized interest?	G208	— — — — —	— — — — —
Are the operating lease revenues accounted for under the accrual method?	G209	— — — — —	— — — — —
For leases entered into beginning June 30, 1990, are operating leases with scheduled rent increases accounted for in a systematic and rational manner? If terms are artificially low has the entity used either the straightline or estimated fair value method?	G210	— — — — —	— — — — —
Notes payable, bond, tax, and revenue anticipation notes, and other debt:			
Special assessment debt and related activities?	G211	— — — — —	— — — — —
Loans or advances from other funds of the governmental unit?	G212	— — — — —	— — — — —
Debt service requirements to maturity?	G213	— — — — —	— — — — —
Changes during the period including advance refundings resulting in defeasance of debt?	G214	— — — — —	— — — — —

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	<u>QUES.</u>	<u>Engagement Code</u>	<u>MFC Ref.*</u>
Unpaid debt that has been fully defeased?	G215	— — — — —	—
Sinking fund contributions required as of year end?	G216	— — — — —	—
Demand notes?	G217	— — — — —	—
Compensation for future absences and special termination benefits for employees?	G218	— — — — —	—
Designation or reservations or other restrictions of fund balances or retained earnings?	G219	— — — — —	—
Revenues, expenses and expenditures:			
Grants, entitlements, and shared revenue?	G220	— — — — —	—
Investment income?	G221	— — — — —	—
Deficit fund balances or retained earnings of individual funds?	G222	— — — — —	—
Interfund receivables and payables?	G223	— — — — —	—
Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having different year ends properly disclosed?	G224	— — — — —	—
Are the financial statements adjusted, where appropriate, for the effects of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?	G225	— — — — —	—
If the statement of cash flows is presented, does it report cash provided by investing, noncapital financing, capital and related financing and operating activities?	G226	— — — — —	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

**Appendix A—Questions for Use When the Engagement Is Subject to *Government Auditing Standards***

	<u>QUES.</u>	Engagement Code	MFC Ref.*
Does the language in the auditor's reports conform with professional standards (optional for reports on the basic financial statements), including references to <i>Government Auditing Standards</i> and appropriately cover the following for the entity as a whole:	G401	— — — — —	—
The internal control structure related matters based solely on the auditor's understanding of the internal control structure and assessment of control risk made as part of the audit of the financial statements that includes, when appropriate:	G402	— — — — —	—
The controls that were evaluated?	G403	— — — — —	—
Reference to a separate letter, if applicable, describing identified nonreportable conditions?	G404	— — — — —	—
Which matters are reportable conditions and which of the reportable conditions are material weaknesses?	G405	— — — — —	—
Compliance with applicable laws and regulations, including a summary of all material instances of noncompliance and/or instances or indications of illegal acts that includes, when appropriate:	G406	— — — — —	—
A presentation of a reasonable basis for the auditor's conclusion not to perform tests of compliance and omission of a statement of positive assurance on items tested for compliance with laws and regulations?	G407	— — — — —	—
Presentation of material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding issuance of a report on compliance?	G408	— — — — —	—
Reference to a separate letter, if applicable, describing immaterial instances of noncompliance?	G409	— — — — —	—
When illegal acts involve funds received from other governmental entities did the auditor assure themselves that the audited entity notified the proper official of those entities, within a reasonable time? If the entity did not, or was unable to do so because the top official was involved, has the auditor reported these acts to the officials of those other governmental entities?	G410	— — — — —	—
If appropriate was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results?	G411	— — — — —	—
When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal act, or indications of such acts?	G412	— — — — —	—
Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives?	G413	— — — — —	—
Did the auditor document his/her communication of those nonreportable conditions in the internal control structure not included in the required reports?	G414	— — — — —	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
If required by contractual obligations, were findings presented in accordance with the guidance in the <i>Government Auditing Standards</i> regarding reporting on performance audits?	G415	_____	_____
Do the working papers include a cross-referenced audit program with adequate indexing and cross-referencing to schedules, and are the working papers signed by the preparer and include documentation of supervisory review?	G416	_____	_____
Are appropriate personnel in compliance with the 1988 Yellow book CPE requirements?	G417	_____	_____
Was appropriate assurance of independence considered on three levels: personal, external and organizational and did the auditor maintain an independent attitude and appearance?	G418	_____	_____
If the auditor (firm) is a CPA or PA, did the auditor meet the licensing requirements of the jurisdiction where the auditee is located? (GAO, ch. 3, par. 10)	G419	_____	_____
<u>Program Specific Audits</u>			
Where an auditor has been engaged to conduct a program specific audit, did the auditor obtain an understanding of the audit requirements for that particular program?	G420	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

**Appendix B—Questions for Use When the Engagement Is Subject to the Single Audit Act of 1984**

NOTE: Reports mentioned in Appendix B are in addition to those indicated previously in Appendix A.

	QUES.	Engagement Code	MFC Ref.*
Does the language in the auditor's reports conform with professional standards, including references to <i>Government Auditing Standards</i> and OMB circular A-128?	G501	_ _ _ _ _	_ _ _ _ _
Do the Single Audit Act Reports also include:			
Auditor's report on the schedule of federal financial assistance?	G502	_ _ _ _ _	_ _ _ _ _
Auditor's report on internal controls over federal financial assistance program identifying the entity's internal control structure and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including:	G503	_ _ _ _ _	_ _ _ _ _
The controls that were evaluated (considered and tested)?	G504	_ _ _ _ _	_ _ _ _ _
The controls that were not evaluated (tested)?	G505	_ _ _ _ _	_ _ _ _ _
The material weaknesses identified as a result of the evaluation (considered and tested)?	G506	_ _ _ _ _	_ _ _ _ _
<b>Major Programs—compliance report—specific requirements:</b>			
An opinion that the entity complied, in all material respects, with <u>specific</u> requirements that, if not complied with, could have a material effect?	G507	_ _ _ _ _	_ _ _ _ _
<b>Nonmajor Programs—compliance report—specific requirements:</b>			
A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs?	G508	_ _ _ _ _	_ _ _ _ _
<b>Major and Nonmajor Programs—compliance auditing—general requirements:</b>			
A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements relating to major programs?	G509	_ _ _ _ _	_ _ _ _ _
When appropriate, did the auditor issue either a qualified or adverse report on compliance, which presented material instances of noncompliance with laws and regulations in accordance with the guidance in <i>Government Auditing Standards</i> regarding reporting on performance audits?	G510	_ _ _ _ _	_ _ _ _ _
Did the auditor, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the entity appropriately identified all federal financial assistance and included that assistance within the audit scope?	G511	_ _ _ _ _	_ _ _ _ _
Does the schedule of federal financial assistance program expenditures present the following:			

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Identification of each program as indicated in the <i>Catalog of Federal Domestic Assistance</i> (CFDA)?	G512	— — — — —	— — — — —
Other federal assistance from programs not included in the CFDA?	G513	— — — — —	— — — — —
Total expenditures for each federal financial assistance program by grantor, department, or agency?	G514	— — — — —	— — — — —
Total federal financial assistance?	G515	— — — — —	— — — — —
Other information, either required by federal program managers or otherwise deemed appropriate?	G516	— — — — —	— — — — —
Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-128 ( <i>Audits of State and Local Governments</i> ), A-87 ( <i>Cost Principles Applicable to Grants and Contracts</i> ), and "common rule" under A-102 ( <i>Uniform Requirements for Assistance to State and Local Governments</i> )?	G517	— — — — —	— — — — —
Do the working papers indicate that consideration was given to prior audits of government financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance?	G518	— — — — —	— — — — —
Did the auditor perform and document the required level of internal control structure review, to include:			
The consideration and testing of those internal control structure policies and procedures, used in administering major federal financial assistance programs, comparable to that which the auditor would perform if he intended to assess control risk below the maximum level?	G519	— — — — —	— — — — —
If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering nonmajor programs, to the same extent as in Question G519 above so that controls over at least 50 percent of total federal financial assistance program expenditures are studied and evaluated?	G520	— — — — —	— — — — —
A sufficient understanding of the internal control structure for the systems used in administering other non-major federal financial assistance programs?	G521	— — — — —	— — — — —
For the categories of controls for which the test of controls were performed:			
Do the working papers document the auditor's understanding of the structure?	G522	— — — — —	— — — — —
In the judgment of the reviewer, were the nature and extent of test of controls sufficient to enable the auditor to determine if the appropriate policies and procedures were being applied as described?	G523	— — — — —	— — — — —
Did the auditor include the recipient's system for ensuring sub-recipients' compliance and obtaining and acting on subrecipients' audit reports?	G524	— — — — —	— — — — —
Do the working papers adequately document the work performed and the conclusions reached?	G525	— — — — —	— — — — —

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.



In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:

Consult appropriate sources, such as the Compliance Supplement for Single Audits of State and Local Governments (revised September 1990), statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test?

QUES.	Engagement Code	MFC Ref.*
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G526	_____	_____
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Consider materiality in relation to each major federal assistance program?

G527	_____	_____
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Select a representative number of charges from each major program?

G528	_____	_____
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Perform and document tests to determine whether:

The amounts reported as expenditures were allowable under federal regulations and contracts?

G529	_____	_____
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Only eligible persons or organizations received services or benefits?

G530	_____	_____
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Matching requirements were met?

G531	_____	_____
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Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements?

G532	_____	_____
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The entity complied with other provisions for which federal agencies have determined that noncompliance could materially affect the program?

G533	_____	_____
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Perform and document tests to determine whether the entity complied with each of the general requirements contained in the compliance supplement concerning:

Political activity?

G534	_____	_____
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Civil rights?

G535	_____	_____
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Davis-Bacon Act?

G536	_____	_____
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Cash management?

G537	_____	_____
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Relocation of assistance and real property acquisition?

G538	_____	_____
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Federal financial reports?

G539	_____	_____
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Allowable costs/cost principles?

G540	_____	_____
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Drug-free workplace act?

G541	_____	_____
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Administrative requirements?

G542	_____	_____
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Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs?

G543	_____	_____
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\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Consider whether the tests of compliance with the program's requirements appear adequate to support the report(s) on compliance?	G544	— — — — —	—
Did the auditor properly consider the potential effects of instances of noncompliance and questioned costs in reporting on the entity's financial statements and individual financial assistance programs?	G545	— — — — —	—
Where transactions related to non-major federal assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific requirements that apply to the individual transactions so tested?	G546	— — — — —	—
If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems?	G547	— — — — —	—
Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time?	G548	— — — — —	—
Has the auditor established policies or procedures for complying with the additional requirements concerning:			
Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?	G549	— — — — —	—
Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?	G550	— — — — —	—
<b>Report and Disclosure Considerations Unique to Not-for-Profit Organizations</b>			
<b>Financial Statements and Notes</b>			
If the auditor is expressing an opinion on summarized comparative information of the prior period, does the prior period's information contain sufficient detail to constitute a fair presentation in accordance with generally accepted accounting principles?	N101	— — — — —	—
If the financial statements represent a component, such as a chapter of an existing organization, a separate operation, a separate fund, or a grant, do the financial statements or footnotes disclose the following:			
Existence and nature of affiliated or related entities?	N102	— — — — —	—
Nature and volume of material transactions (individually or in the aggregate) with related entities?	N103	— — — — —	—
Allocations of common expenses?	N104	— — — — —	—
Are related party transactions with non-combined affiliated entities, contributors of restricted funds, board members, officers, and employees adequately disclosed?	N105	— — — — —	—
If appropriate, are the financial statements prepared on a fund accounting basis and adequate disclosures made of the following:			
Unrestricted resources?	N106	— — — — —	—
Resources restricted by the donor?	N107	— — — — —	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

QUES.	Engagement Code	MFC Ref.*
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**Balance Sheet**

Is the presentation appropriate and disclosure adequate regarding:

Cash?

N108 \_\_\_\_\_

Terms or circumstances concerning repurchase or reverse repurchase agreements?

N109 \_\_\_\_\_

Accounts and Notes receivable:

Legally enforceable pledges?

N110 \_\_\_\_\_

Interfund receivables?

N111 \_\_\_\_\_

Collections of works of art and similar items?

N112 \_\_\_\_\_

Fixed assets:

Purchased fixed assets?

N113 \_\_\_\_\_

Donated fixed assets?

N114 \_\_\_\_\_

Accounting for depreciation, including disclosure of depreciation policy for inexhaustible assets?

N115 \_\_\_\_\_

Major classes of depreciable assets?

N116 \_\_\_\_\_

Accumulated depreciation, as well as, a general description of the method used in computing depreciation?

N117 \_\_\_\_\_

Capitalized interest?

N118 \_\_\_\_\_

Restrictions on use or disposal imposed by donor?

N119 \_\_\_\_\_

Notes payable and other debt:

Interfund payables?

N120 \_\_\_\_\_

**Activity Statement**

Are unrestricted revenues, expenses, and fund balances clearly distinguishable from restricted items?

N121 \_\_\_\_\_

If the organization receives significant support from contributions from the general public, are all expenses presented on a functional basis (i.e., indicating costs of each program and supporting activity)?

N122 \_\_\_\_\_

Does the Activity Statement include all the funds of the organization?

N123 \_\_\_\_\_

Is the presentation appropriate and disclosure adequate regarding:

Service fees, such as subscription and membership income?

N124 \_\_\_\_\_

Sales of publications and other items?

N125 \_\_\_\_\_

Third-party reimbursements of costs for services provided?

N126 \_\_\_\_\_

Investment income?

N127 \_\_\_\_\_

Capital gains and losses from investments, both realized and unrealized, and the related tax effects, if any?

N128 \_\_\_\_\_

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?	N129	— — — — —	—
Contributions?	N130	— — — — —	—
Donated services, materials and facilities?	N131	— — — — —	—
Gifts of future interests?	N132	— — — — —	—
Other gifts, grants, pledges, etc.?	N133	— — — — —	—
Interfund transfers?	N134	— — — — —	—
Other revenue or capital additions?	N135	— — — — —	—
Allocation of functional expenses to programs and supportive services?	N136	— — — — —	—
Fund raising expenses, including joint costs of informational materials and activities allocated between fund raising and other functional expense categories?	N137	— — — — —	—
Grants to other organizations?	N138	— — — — —	—
Remittances to national organizations?	N139	— — — — —	—
Prior period adjustments?	N140	— — — — —	—

#### Additional Financial Statements

For not-for-profit organizations accounted for under SOP 78-10, is a statement of changes in financial position or cash flows presented as a basic financial statement for each period for which an activity statement and balance sheet are presented?

N141 — — — — —

If a statement of changes in financial position was presented, does it disclose all important aspects of financing and investing activities?

N142 — — — — —

For voluntary health and welfare organizations, is a statement of functional expenses presented as a basic financial statement for each period for which an activity statement is presented?

N143 — — — — —

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

## II. GENERAL AUDIT PROCEDURES

	Engagement Code	MFC Ref.*
QUES.		
<b>Procedures Applicable to All Audit Engagements</b>		
In planning the audit engagement, did the auditor properly consider:		
Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and government regulations, and technological changes?	A204	_____
Matters affecting the entity's business, such as organization and types of products and services and contractual obligations?	A205	_____
Preliminary judgment about materiality levels?	A206	_____
Did the auditor:		
Make an assessment of the risk of material misstatements of the financial statements, including those resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts?	A207	_____
Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?	A208	_____
Design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements?	A209	_____
Did the auditor use analytical procedures in planning the nature, timing and extent of other audit procedures?	A210	_____
If the auditor succeeded a predecessor auditor, did the auditor:		
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client?	A211	_____
Make other inquiries of the predecessor auditor on significant matters?	A212	_____
Reach satisfaction on the fair presentation of opening balances, such as by reviewing the predecessor auditor's working papers?	A213	_____
If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with professional standards?	A214	_____
Did the auditor:		
Obtain a sufficient understanding of the entity's internal control structure to plan the audit?	A215	_____
Document the understanding of the internal control structure?	A216	_____
Document the conclusion that control risks are at the maximum level for those financial statement assertions where control risk is assessed at the maximum level?	A217	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code					MFC Ref.*
Document the basis for the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level?	A218	—	—	—	—	—	—
If the methods used by the client to process significant accounting information includes the use of a service organization, was consideration given to the internal controls of the accounting applications, if any, at the service organization?	A219	—	—	—	—	—	—
If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report obtained and appropriately considered, or test performed by the auditor at the service organization?	A220	—	—	—	—	—	—
If the engagement included the use of the work (domestic or international) or another office, correspondent or affiliate:							
Do the instructions to the other office or firm appear adequate?	A221	—	—	—	—	—	—
Does it appear that the control exercised over the work of others through supervision and review was adequate?	A222	—	—	—	—	—	—
Was there appropriate follow-up of open matters?	A223	—	—	—	—	—	—
In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation?	A224	—	—	—	—	—	—
Was an appropriately tailored, written audit program prepared?	A225	—	—	—	—	—	—
Was the audit program responsive to the needs of the engagement, and the understanding of the internal control structure obtained during the planning process?	A226	—	—	—	—	—	—
Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests?	A227	—	—	—	—	—	—
If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances?	A228	—	—	—	—	—	—
Have all procedures called for in the audit program been signed?	A229	—	—	—	—	—	—
If statistical or nonstatistical sampling was used in compliance tests of tests of controls:							
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and likely rate of deviations?	A230	—	—	—	—	—	—
Was the sample selected in such a way that it could be expected to be representative of the population?	A231	—	—	—	—	—	—
Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures?	A232	—	—	—	—	—	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

QUES.	Engagement Code	MFC Ref.*
In evaluating the sample, was appropriate consideration given to items for which the planned test of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing?	A233	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A234	_____
If statistical or nonstatistical sampling was used for substantive tests of details:		
In your consideration of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, tolerable misstatements, acceptable level of risk of incorrect acceptance, and characteristics of the population?	A235	_____
Was the sample selected in such a way that it could be expected to be representative of the population?	A236	_____
Were the misstatement results of the sample projected to the items from which the sample was selected?	A237	_____
In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed?	A238	_____
In the evaluation of whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatement results from all audit sampling applications and to all known misstatements from non-sampling applications?	A239	_____
Was the documentation of the foregoing considerations in accordance with firm policy?	A240	_____
During the performance of the engagement, did the auditor:		
Consider the guidelines in professional standards in developing, performing, and evaluating the results of analytical procedures used as substantive tests?	A241	_____
Use analytical procedures in the overall review stage of the audit?	A242	_____
Has the auditor evaluated the reasonableness of accounting estimates made by management?	A243	_____
Did the auditor obtain a timely and appropriate letter of representation from management?	A244	_____
Did the auditor obtain timely and appropriate responses from the client's attorney concerning litigation, claims, and assessments?	A245	_____
Have all questions, exceptions, or notes posed during the audit been followed up and resolved?	A246	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely misstatements are considered with likely misstatements arising in the current period?	A247		
During the performance of the engagement, did the auditor:			
Follow up on errors and irregularities in accordance with professional standards?	A248		
Consider the implications of an irregularity in relation to other aspects of the audit, including the reliability of client representations?	A249		
Obtain assurance that the audit committee or others with equivalent authority and responsibility had been adequately informed of all but clearly inconsequential irregularities identified during the engagement?	A250		
When the auditor's procedures disclosed instances or indications of illegal acts, did the auditor:			
Follow up on illegal acts having a direct and material effect on the financial statements and on all other illegal acts in accordance with professional standards?	A251		
Consider the implications of a detected illegal act in relation to other aspects of the audit, including the reliability of client representations?	A252		
Communicate directly with the audit committee if the illegal act involved senior management, document that communication and obtain assurance that all illegal acts which come to the auditor's attention are adequately communicated?	A253		
Did the auditor consider if there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?	A254		
If the auditor believed that there was substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, did the auditor obtain information about management's plans and evaluate the likelihood that such plans could be effectively implemented?	A255		
If the auditor's substantial doubt was alleviated, did the notes to the financial statements adequately disclose the principal conditions and events, the possible effects, and any mitigating factors, including management's plans?	A256		
If the auditor's substantial doubt was not eliminated, did the auditor's report include an explanatory paragraph which adequately communicates the auditor's substantial doubt (e.g., includes the terms "substantial doubt" and "going concern")?	A257		
During the performance of the audit:			

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.



QUES.	Engagement Code	MFC Ref.*
If there were reportable conditions identified were they communicated to the audit committee, management and others within the organization on a timely basis (If the communication was oral, was it documented in the working papers)?	A258	
Does the auditor's conclusions in the working papers regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate?	A259	
If a report was issued on reportable conditions did it: Indicate the purpose of the audit, include the definition of reportable conditions and include the restriction on distribution?	A260	
If a letter was issued that did not include reportable conditions did it omit an opinion that there were no reportable conditions?	A261	
If the auditor was engaged to prepare or perform procedures on interim financial information filed with a specified regulatory agency and the auditor became aware of matters that caused the auditor to believe such information is probably materially misstated as a result of a departure from the application of generally accepted accounting principles did the auditor:		
Discuss the matter with the appropriate level of management?	A262	
Timely inform the audit committee or others with equivalent authority and responsibility, if management did not respond appropriately or timely?	A263	
Evaluate whether to resign or remain as the client's auditor, if the audit committee did not respond appropriately or timely?	A264	
If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards, in determining an appropriate course of action, and does the matter appear to be properly resolved?	A265	
If there is an indication that the auditor, subsequent to the date of the report, concluded that one or more auditing procedures considered necessary at the time of the audit of the financial statements in the then existing circumstances were omitted from the audit, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved?	A266	
Where there is a formal oversight committee, did the auditor:		
Ensure that the appropriate matters have been communicated to those who have responsibility for oversight of the financial reporting process?	A267	
If the communication was in writing, prepare a written report that includes a statement that the communication is intended solely for the use of the audit committee or the board of directors and, if appropriate, management?	A268	

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

QUES.	Engagement Code	MFC Ref.*
If the communication was oral, document the information communicated by appropriate memorandum or notations in the working papers?	A269	
<b>Procedures Unique to Audits of State or Local Governmental Entities</b>		
In planning the audit engagement, did the auditor properly consider:		
Does the engagement letter, proposal or contract, if such documents were prepared, include a statement as to what type of engagement is being performed and whether the engagement is intended to meet governmental oversight agency's audit requirements?	G250	
Definition of the reporting entity indicating the related organizations, functions, and activities which are either included or excluded from the financial statements in accordance with professional standards?	G251	
Factors affecting the continued functioning of the government, such as legal limitations on revenue, expenditures, or debt service?	G252	
For a jointly signed audit report, are there indications that the auditor has conducted sufficient audit procedures to warrant signing the report in an individual capacity?	G253	
If the principal auditor did not refer to the other auditor in his or her report, did the principal auditor perform one or more of the additional procedures contained in AU 543.12 to assess the adequacy of the work performed by the other auditor?	G254	
Was an appropriately tailored, written audit program prepared?	G255	
If applicable, were adequate tests of compliance with applicable laws and regulations that have a material effect on the financial statements performed and documented?	G256	
If the auditor became aware that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement, did the auditor communicate to management and the audit committee (or others with equivalent authority) that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory or contractual requirements? (Communication may be oral or in writing—if the communication is oral the auditor should document the communication in the working papers.)	G257	
If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse or illegal expenditures and acts, did the auditor:		
Either obtain management's approval to extend audit steps and procedures to identify the effect on the entity's financial statements or consider issuing a disclaimer of opinion because of a scope limitation and disclose any reservations regarding compliance with applicable laws and regulations?	G258	
Give prompt notice to the appropriate management officials of the recipient above the level of involvement?	G259	

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Were all material instances of weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations:			
Adequately evaluated and documented?	G260	_____	_____
Appropriately reported in accordance with applicable standards?	G261	_____	_____
<b>Procedures Unique to Audits of Not-for-Profit Organizations</b>			
Was an appropriately tailored, written audit program prepared?	N201	_____	_____
Have all questions, exceptions, or notes posed during the audit been followed up and resolved including consideration of the views obtained from responsible officials of the organization, program, activity, or function audited concerning the auditor's findings, conclusions, and recommendations?	N202	_____	_____
Does the language in the auditor's reports conform with professional standards (optional for reports on basic financial statements), including references to Government Accounting Standards and appropriately cover the following for the entity as a whole:			
The financial statements?	N301	_____	_____
Do the OMB Cir. A-133 Reports also include:			
Auditor's reports on the schedule of federal awards?	N302	_____	_____
Auditor's report on internal control structure used in administering federal awards in order to ensure the entity's internal control structure was designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations including:	N303	_____	_____
The controls that were evaluated (considered and tested)?	N304	_____	_____
The controls that were not evaluated (tested)?	N305	_____	_____
The material weaknesses identified as a result of the evaluation (considered and tested)?	N306	_____	_____
If the entity is subject to OMB Cir. A-133 did the auditor include a description of all instances of noncompliance in the audit reports or include a reference to a separate communication?	N307	_____	_____
If a separate communication was prepared to report on instances of immaterial noncompliance, was the communication to the institution in writing?	N308	_____	_____
Did the auditor submit the report(s) to the organization audited within the required time?	N309	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

## III. WORKING PAPER AREAS

	Engagement Code	MFC Ref.*
QUES.		
<b>Working Paper Areas Applicable to All Audit Engagements</b>		
<b>Cash</b>		
Were bank accounts confirmed and were reconciling items cleared by reference to subsequent statements obtained directly from the bank (or obtained from the client and appropriately tested)?	A301	_____
Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?	A302	_____
Do the working papers indicate that the following were considered:		
Restrictions on cash balances?	A303	_____
Confirmation of bank credit arrangements such as compensating balances?	A304	_____
Confirmation of liabilities and contingent liabilities to banks?	A305	_____
Based on the assessment of control risk, do the substantive tests of cash appear adequate?	A306	_____
<b>Receivables</b>		
Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternative procedures?	A307	_____
If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?	A308	_____
If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed?	A309	_____
Were significant notes receivable confirmed as of the balance sheet date?	A310	_____
Were the results of confirmation and alternative procedures summarized and were appropriate conclusions drawn in the working papers?	A311	_____
Was collateral (if any) for receivables examined with respect to existence, ownership and value?	A312	_____
Were adequate tests of discounts and allowances made?	A313	_____
Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered?	A314	_____
Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are sold, pledged, assigned or otherwise encumbered?	A315	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

QUES.	Engagement Code	MFC Ref.*
Was receivable work coordinated with the tests of revenue, including cut-off tests?	A316	_____
Were procedures performed to verify whether the carrying value of notes receivable reflects the present value of the consideration given and the appropriate interest rate?	A317	_____
Based on the assessment of control risk, do the substantive tests of receivables appear adequate?	A318	_____
<b>Inventories</b>		
Where the physical inventory is taken at a date other than the balance sheet date (or where rotating procedures are used), do the working papers indicate that consideration was given to inventory transactions between the inventory date(s) and the balance sheet date?	A319	_____
Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with counts reflected in final inventory)?	A320	_____
Were physical inventories observed at all locations where relatively large amounts are located?	A321	_____
Where the physical inventory in the hands of others was not observed, were inventory confirmations received [i.e., inventory in public warehouses, on consignment, etc.]?	A322	_____
If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the physical inventory (or cycle counts) are properly reflected in the accounts?	A323	_____
Do the working papers indicate that there were adequate tests of:		
The clerical accuracy of the inventory?	A324	_____
Costing methods and substantiation of costs used in pricing all elements (raw materials, work in process, finished goods) of the inventory?	A325	_____
Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?	A326	_____
Where LIFO is used, did the auditor consider whether the client's LIFO techniques are generally consistent with those in the AICPA's issues paper on LIFO?	A327	_____
Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?	A328	_____
Were inquiries concerning purchase and sales commitments made, including consideration as to any possible adverse effects?	A329	_____
Were appropriate inventory cut-off tests performed?	A330	_____
Where applicable, were analytic procedures employed to check overall valuation of inventories?	A331	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Do the working papers indicate that steps were performed to determine if any inventory is pledged?	A332	_____	_____
Based on the assessment of control risk, do the substantive tests of inventory appear adequate?	A333	_____	_____
<b>Investments</b>			
Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during the period, income, market value, etc., of investments?	A334	_____	_____
Were securities either examined or confirmed?	A335	_____	_____
Was the computation of realized gains and losses properly tested by the auditor?	A336	_____	_____
Do the working papers reflect consideration of the appropriateness of carrying values of securities and their classification?	A337	_____	_____
Were investigations of possible impairment of the carrying value of long-term investments made?	A338	_____	_____
Do the working papers reflect consideration that investments were pledged restricted, or had limitations on their immediate use?	A339	_____	_____
For investments accounted for on the equity method, were financial statements and other information reviewed to support the amounts presented or the note disclosures made?	A340	_____	_____
For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral)?	A341	_____	_____
Based on the assessment of control risk, do the substantive tests of investments appear adequate?	A342	_____	_____
<b>Prepaid Expenses, Intangible Assets, Deferred Charges, etc.</b>			
Were adequate tests made for all material:			
Prepaid expenses?	A343	_____	_____
Intangible assets?	A344	_____	_____
Deferred charges?	A345	_____	_____
Other?	A346	_____	_____
Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?	A347	_____	_____
Were reviews made of the continuing value of goodwill and other intangible assets?	A348	_____	_____
If insurance policies were pledged as collateral or subjected to premium financing, did the auditor consider whether accounting for such loans was appropriate?	A349	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate?	A350	_____	_____
<b>Property, Plant and Equipment</b>			
Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period and ending balances for:			
Property, plant and equipment?	A351	_____	_____
Accumulated depreciation?	A352	_____	_____
Do tests appear adequate and were proper conclusions drawn with respect to:			
Additions (by the examination of supporting documents and/or physical inspection)?	A353	_____	_____
Retirements, etc. (including examination of miscellaneous income, scrap sales)?	A354	_____	_____
The adequacy of current and accumulated provisions for depreciation and depletion?	A355	_____	_____
Status of idle facilities?	A356	_____	_____
Do the working papers indicate that the auditor considered the possibility that property was subject to liens?	A357	_____	_____
Based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate?	A358	_____	_____
<b>Liabilities</b>			
Where required, were accounts payable adequately tested for propriety?	A359	_____	_____
Where required, were liabilities properly classified as current or long-term at the balance sheet date?	A360	_____	_____
Was the payables work coordinated with the testing of the purchases cut-off?	A361	_____	_____
Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences or postretirement benefits), and to whether accrued expenses were reasonably stated?	A362	_____	_____
Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed or alternative procedures performed?	A363	_____	_____
Were procedures performed to verify whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rates?	A364	_____	_____
Is there evidence of testing of the company's compliance with covenants to debt obligations?	A365	_____	_____
Based on the assessment of control risk, do the substantive tests of liabilities appear adequate?	A366	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	Engagement Code	MFC Ref.*
QUES.		
<b>Deferred Credits</b>		
Do the working papers indicate that:		
The basis of deferring income is reasonable and on a consistent basis from year to year?	A367	_____
Deferrals have been established on a reasonable basis?	A368	_____
<b>Income Taxes</b>		
Were the current and deferred tax accrual accounts and related provisions analyzed and appropriate auditing procedures performed?	A369	_____
Do the working papers contain evidence that, in determining the adequacy of the income tax accruals and provisions, appropriate consideration was given to possible adjustments required for:		
Tax positions taken by the client that might be challenged by the taxing authorities and/or other tax contingencies?	A370	_____
Possible assessments, penalties or interest, including similar adjustments applicable to years not yet examined?	A371	_____
Based upon the review of the financial statements and working papers and, if necessary, discussions with engagement personnel, does it appear as though substantive tax matters applicable to this engagement were given adequate consideration?	A372	_____
<b>Commitments and Contingencies</b>		
Do the working papers include indication of the following:		
Inspection of minutes of meetings of the stockholders, board of directors, and executive and other committees of the board?	A373	_____
Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?	A374	_____
Accumulation and analysis of confirmation responses from banks and lawyers?	A375	_____
Inquiry and discussion with management including management's written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable?	A376	_____
Other contingent liabilities (such as buy/sell agreements) for possible guarantees?	A377	_____
Is there indication that procedures were performed to uncover the need for recording or disclosing events subsequent to the date of the financial statements?	A378	_____
Have all material contingencies been properly considered, documented, and reported?	A379	_____
<b>Capital Accounts</b>		
Were changes in capitalization checked to authorizations?	A380	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.



	QUES.	Engagement Code	MFC Ref.*
Do the working papers indicate that there were adequate inquiries about stock options, warrants, rights, redemptions and conversion privileges?	A381	_____	_____
Based on the assessment of control risk, do the substantive tests of capital appear adequate?	A382	_____	_____
<b>Income and Expenses</b>			
Were tests of payrolls, including account distribution, made where appropriate?	A383	_____	_____
Concerning pension and profit sharing plans (including impact of ERISA), do tests made of the expenses and liabilities appear adequate?	A384	_____	_____
Were revenue and expenditures and/or expenses for the period compared to the preceding period and reviewed for reasonableness and were significant variances and fluctuations explained?	A385	_____	_____
Was adequate consideration given to:			
The client's revenue recognition policy?	A386	_____	_____
Income recognition on transactions where the earnings process was not complete?	A387	_____	_____
Unusual sales transactions?	A388	_____	_____
Income recognition when the right of return exists?	A389	_____	_____
Based on the assessment of control risk, did the substantive tests (review, analysis, and testing) of revenue and expenditures/expenses appear adequate?	A390	_____	_____
<b>Other</b>			
Have leases been reviewed to determine that capital, sales, and direct financing leases have been properly accounted for?	A391	_____	_____
Were appropriate procedures applied to supplemental information?	A392	_____	_____
Review of Interim Financial Information:			
Were appropriate procedures performed?	A393	_____	_____
If required by firm policy, was a checklist of the above procedures used?	A394	_____	_____
If the work of a specialist was used, did the auditor apply the guidance in professional standards?	A395	_____	_____
Were specific procedures for determining the existence of related parties and examining identified related party transactions applied?	A396	_____	_____
If consolidated statements are presented:			
Have intercompany balances and transactions been eliminated?	A397	_____	_____
If the financial reporting periods of one or more subsidiaries differ from that of the parent, was recognition given to the effect of intervening events that materially affect financial position or the results of operations?	A398	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	Engagement Code	MFC Ref.*
QUES.		
Was appropriate consideration given to the carrying value of long-term contracts in relation to their contract prices, estimated costs to complete, and degree of completion?	A399	_____
Was appropriate consideration given to the accounting for (including the disclosure of) futures, forwards, and standby contracts?	A400	_____
<b>Working Paper Areas Unique to Audits of State or Local Governmental Entities</b>		
<b>Cash</b>		
Do the working papers indicate that the following were considered:		
Approval of interfund cash transactions?	G301	_____
Verification of collateral required of depository institutions for public funds?	G302	_____
Compliance with the laws and regulations governing the deposit of public funds?	G303	_____
Determination that all cash accounts have been identified and appropriately recorded?	G304	_____
Review of repurchase security transactions for consistency with the disclosures of the terms or circumstances of the transactions?	G305	_____
<b>Receivables</b>		
Were procedures performed to provide evidence that taxes receivable and the related revenues were recorded in the correct period?	G306	_____
<b>Inventories</b>		
Do the working papers indicate that there were adequate tests of:		
Physical observation, if material?	G307	_____
<b>Investments</b>		
For joint venture investments (accounted for on the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related note disclosures?	G308	_____
Was a review made to determine whether the investments are of the types authorized by law or comply with the applicable statutes and investment policies?	G309	_____
Were income, gains and losses from investments examined for proper allocation to the individual funds?	G310	_____
<b>Fixed Assets</b>		
Was a review made to determine that capital expenditures are classified in the proper fund accounts and made in accordance with budgetary requirements?	G311	_____
<b>Liabilities</b>		
Were procedures performed to determine whether deferred compensation plans are appropriately disclosed?	G312	_____
Was an examination made to determine that:		

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
New debt issues are properly issued as required by the state constitution or state/local statute and are recorded in the correct fund and/or account group?	G313	_ _ _ _ _	_ _ _ _ _
Debt restrictions, guarantees and other debt commitments are properly disclosed?	G314	_ _ _ _ _	_ _ _ _ _
Do the tests of interfund borrowings appear adequate with respect to:			
Legal restrictions, if any, on such borrowings?	G315	_ _ _ _ _	_ _ _ _ _
Authorization?	G316	_ _ _ _ _	_ _ _ _ _
Classification?	G317	_ _ _ _ _	_ _ _ _ _
Appropriateness of interest accruals and payments?	G318	_ _ _ _ _	_ _ _ _ _
<b>Deferred Revenue</b>			
Where applicable, was consideration given to matching requirements, if any?	G319	_ _ _ _ _	_ _ _ _ _
If there were grants, entitlements or shared revenues received but not expended, where expenditure is the prime factor for determining eligibility, were the funds properly reported as deferred revenue?	G320	_ _ _ _ _	_ _ _ _ _
<b>Commitments and Contingencies</b>			
Do the working papers include indication of the following:			
Consideration of prior audits of federal financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance?	G321	_ _ _ _ _	_ _ _ _ _
Inspection of long-term contracts with nongovernmental entities, such as construction contractors?	G322	_ _ _ _ _	_ _ _ _ _
<b>Fund Equity</b>			
Where applicable, were authorizations of changes in reserves and designated balances examined?	G323	_ _ _ _ _	_ _ _ _ _
Do the working papers indicate that there were appropriate inquiries, where applicable, as to proper classification, description and disclosures of components of fund equity?	G324	_ _ _ _ _	_ _ _ _ _
Do the working papers indicate that fund transfers were properly approved and recorded?	G325	_ _ _ _ _	_ _ _ _ _
<b>Revenues and Expenditures/Expenses</b>			
Do the working papers indicate that revenues and interfund transactions were recognized in the accounting period in which they became available and measurable under the applicable basis of accounting?	G326	_ _ _ _ _	_ _ _ _ _
Do the working papers indicate that the auditor considered the effect of program income on federal grants and any related activities?	G327	_ _ _ _ _	_ _ _ _ _
Has it been determined that:			
Expenditures are in accordance with the approved budget as to amounts and purpose?	G328	_ _ _ _ _	_ _ _ _ _

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Encumbrances are properly identified, supported and recorded?	G329	_____	_____
Indirect cost allocations are in accordance with OMB A-87?	G330	_____	_____
If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:			
Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?	G331	_____	_____
Were cost reimbursement reports and the underlying support reviewed?	G332	_____	_____
Was the reasonableness of the indirect cost allocation plan reviewed and the propriety of the amounts allocated to grant programs determined?	G333	_____	_____
Was the effect of audits, either required or performed by third-party grantors, considered?	G334	_____	_____
If grants are awarded to other organizations, did the auditor review:			
The classification of the grants?	G335	_____	_____
The effects of the grantees' compliance or noncompliance with performance requirements?	G336	_____	_____
<b>Working Paper Areas Unique to Audits of Not-for-Profit Organizations</b>			
<b>Cash</b>			
Do the working papers indicate that the following were considered:			
Authorization for interfund cash transactions?	N401	_____	_____
Determination that all cash accounts have been identified and appropriately recorded?	N402	_____	_____
<b>Receivables</b>			
Were procedures performed to provide evidence that pledged receivables are properly recorded in the appropriate funds?	N403	_____	_____
<b>Inventories</b>			
Do the working papers indicate that there were adequate tests of:			
Physical observation, if material?	N404	_____	_____
<b>Investments</b>			
When investments are held by an outside custodian, who is authorized by the client to execute transactions without specific authorizations of individual transactions, did the auditor consider the guidance in professional standards?	N405	_____	_____
Do the working papers reflect consideration of changes in the carrying value of marketable securities and other instruments and the appropriateness of unrealized gains and losses that were recognized?	N406	_____	_____
Do the working papers indicate tests of the unit market value calculations of pooled investment funds, including the propriety of handling additions to and withdrawals from the pool?	N407	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
Were income and realized and unrealized gains and losses from investments examined for proper allocation to the individual funds?	N408	_____	_____
Do the working papers indicate that consideration was given to indications that investments were pledged, restricted, or had limitations on immediate use?	N409	_____	_____
Do the working papers indicate that risk of loss on repurchase agreements was properly considered?	N410	_____	_____
Do the working papers indicate that repurchase security transactions were reviewed for consistency with the disclosures of the terms or circumstances of the transactions?	N411	_____	_____
<b>Collections of Works of Art and Similar Items</b>			
If the collection has been capitalized, do the working papers indicate that the auditor tested the reasonableness of the collection's carrying value?	N412	_____	_____
If a capitalized collection is considered exhaustible, do the working papers indicate that the auditor tested the reasonableness of the related amortization?	N413	_____	_____
Whether or not the collection was capitalized, are the tests adequate with respect to acquisitions and deaccessions?	N414	_____	_____
If the collection is capitalized:			
Were physical inventories observed at all locations where relatively large amounts are located?	N415	_____	_____
Do the working papers contain evidence that counts were correctly made and recorded (i.e., was control over inventory tags or count sheets maintained and were test count quantities reconciled with the quantities reflected in the final inventory)?	N416	_____	_____
If the collection is considered inexhaustible and has not been capitalized, do the working papers indicate that the auditor:			
Evaluated the internal controls over the collection?	N417	_____	_____
Observed a physical inventory at all locations where relatively large amounts are located?	N418	_____	_____
<b>Property and Equipment</b>			
Do tests appear adequate with respect to:			
Valuation of assets not previously capitalized?	N419	_____	_____
Was a review made to determine that capital expenditures are classified in the proper fund accounts?	N420	_____	_____
<b>Liabilities</b>			
Were procedures performed to determine whether tax deferred annuity and life income plans are appropriately calculated to conform with GAAP and IRS regulations?	N421	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

QUES.	Engagement Code						MFC Ref.*
	—	—	—	—	—	—	
Were procedures performed to verify the completeness and reasonableness of transactions recorded in mandatory sinking funds and other types of debt-related reserve funds?	N422	—	—	—	—	—	—
Is there evidence that the release of funds from these reserves was tested and appropriately recorded in the financial statements?	N423	—	—	—	—	—	—
Was consideration given to any liabilities (including the effect of any timing differences) resulting from the Federal excise tax on investment income of private foundations and any Federal and State taxes on unrelated business income?	N424	—	—	—	—	—	—
Do the tests of interfund borrowings appear adequate with respect to:							
Legal restrictions, if any, on such borrowings?	N425	—	—	—	—	—	—
Authorization?	N426	—	—	—	—	—	—
Classification?	N427	—	—	—	—	—	—
Collectibility of amounts due from other funds?	N428	—	—	—	—	—	—
Appropriateness of interest accruals and payments?	N429	—	—	—	—	—	—
<b>Deferred Revenue</b>							
Do the working papers indicate that consideration was given to whether the basis of deferring revenue is reasonable and consistent with the donors' or grantors' restrictions?	N430	—	—	—	—	—	—
Was consideration given to matching requirements, if any?	N431	—	—	—	—	—	—
Do the working papers indicate that consideration was given to the appropriateness of the amounts of restricted gifts, grants, bequests, donations, or other income recognized as current revenue or support?	N432	—	—	—	—	—	—
<b>Commitments and Contingencies</b>							
Did the auditor consider evidence of the entity's activities (such as lobbying) which might cause the entity to lose its tax-exempt status or be subject to penalties or taxes?	N433	—	—	—	—	—	—
If the entity is a private foundation, as defined by IRC section 509, did the auditor determine whether the entity complied with IRS regulations concerning required distribution of income and prohibited activities?	N434	—	—	—	—	—	—
Has adequate consideration been given to loss contingencies in accordance with professional standards?	N435	—	—	—	—	—	—
<b>Fund Balance</b>							
Where applicable, were authorizations of changes in allocations and designated balances examined?	N436	—	—	—	—	—	—
Do the working papers indicate that there were adequate inquiries, where applicable, as to proper classification, description and disclosure of components of the fund balance?	N437	—	—	—	—	—	—
Do the working papers indicate that fund transfers were properly approved and recorded?	N438	—	—	—	—	—	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref.*
If an endowment fund is maintained, do the working papers indicate that fund income is distributed to unrestricted and restricted funds in accordance with donors' stipulations?	N439	_____	_____
<b>Revenues, Expenses, Support, and Capital Additions</b>			
Do the working papers indicate that consideration was given to the valuation and classification of revenue derived from service fees, such as subscription and membership income, and sales of publications and other items?	N440	_____	_____
If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:			
Were pertinent sections of significant third-party contracts reviewed to determine the basis for reimbursement?	N441	_____	_____
Were cost reimbursement reports and the underlying support reviewed?	N442	_____	_____
Were appropriate allocations made of indirect costs among the entity's programs?	N443	_____	_____
Do the working papers indicate that the auditor considered actual receipt of, propriety of, valuation method used for, and any restrictions placed on amounts received during the current period from:			
Cash contributions?	N444	_____	_____
Donated services?	N445	_____	_____
Gifts of securities, materials, facilities, and other nonmonetary items?	N446	_____	_____
Future interests and interest free loans?	N447	_____	_____
If expenses are classified by function, did the auditor adequately test the classifications and allocations?	N448	_____	_____
If joint costs of multipurpose activities are incurred, were the requirements of SOP 87-2 appropriately considered?	N449	_____	_____
Were fundraising costs expensed in the proper period?	N450	_____	_____
If grants are awarded to other organizations, did the auditor review:			
The classification of the grants?	N451	_____	_____
The effects of the grantees' compliance or noncompliance with performance requirements?	N452	_____	_____
With regard to pension plans, do the tests made of the expense and liabilities appear adequate?	N453	_____	_____
<b>Other</b>			
If the entity is affiliated with or otherwise financially related to other entities, did the auditor consider the need for combined financial statements or disclosure of the relationship?	N454	_____	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

## IV. FUNCTIONAL AREAS

QUES.	Engagement Code	MFC Ref.*
<b>Independence</b>		
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?	A501	_____
Have personnel been appropriately advised as to the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate?	A502	_____
Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity?	A503	_____
Were the fees (billed/unbilled) for the prior years' services paid prior to issuance of the report for the current engagement?	A504	_____
<b>Assigning Personnel to Engagements</b>		
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?	A505	_____
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement and the extent of supervision provided?	A506	_____
<b>Consultation</b>		
Was there appropriate consultation and documentation:		
In situations specified by firm policy?	A507	_____
Where the complexity or unusual nature of the issue warranted it?	A508	_____
Were the firm's conclusions consistent with professional standards?	A509	_____
If the engagement records indicated a difference of opinion between personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?	A510	_____
<b>Supervision</b>		
Were appropriate and knowledgeable engagement personnel involved in the planning process?	A511	_____
Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan?	A512	_____
Did the partner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff?	A513	_____
Does it appear that hours charged by the partner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed?	A514	_____

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.



	QUES.	Engagement Code	MFC Ref.*
Were all forms, checklists, or questionnaires, if any, <u>required by firm policy</u> for the following areas adequately completed and modified, where appropriate, for the engagement:			
Planning checklist?	A515	— — — — —	—
Review of internal control structure:			
Manual system?	A516	— — — — —	—
EDP system?	A517	— — — — —	—
Audit work programs?	A518	— — — — —	—
Financial statement disclosures?	A519	— — — — —	—
Working papers and financial statement reviews?	A520	— — — — —	—
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?	A521	— — — — —	—
Were the firm's guidelines for the form and content of audit working papers complied with?	A522	— — — — —	—
If used, were scientific audit tools (e.g., computer auditing, statistical sampling, etc.) properly evaluated by persons with training in these areas?	A523	— — — — —	—
If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy and was that review documented?	A524	— — — — —	—
<b>Advancement</b>			
If required by firm policy, was the staff on this engagement appropriately evaluated?	A525	— — — — —	—
<b>Acceptance and Continuance of Clients</b>			
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?	A526	— — — — —	—
<b>Professional Development*</b>			
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, GASB, SEC, etc.)?	A527	— — — — —	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

# QRP Section 6200

## *Summary Review Engagement Checklist*

### Summary Checklist for Reviews of Review Engagements

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## I. REPORT AND FINANCIAL STATEMENTS

	QUES.	Engagement Code	MFC Ref <sup>a</sup>
<b>Accountant's Report</b>			
Is the report dated in conformity with the requirements of professional standards?	R101	— — — — —	—
Does the report adequately disclose all required matters and does its language conform to that required by professional standards including appropriate language describing any modifications from professional standards, if applicable?	R102	— — — — —	—
If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?	R103	— — — — —	—
Does the report cover all periods for which financial statements are presented?	R104	— — — — —	—
If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking?	R105	— — — — —	—
Does each page of financial statements that have been reviewed include a reference to the accountant's report?	R106	— — — — —	—
<b>Financial Statements and Notes</b>			
<b>General</b>			
Are the financial statements suitably titled?	R107	— — — — —	—
Do the financial statements appear to be free from material error?	R108	— — — — —	—
Is the presentation appropriate and disclosure adequate regarding:			
Significant accounting policies?	R109	— — — — —	—
Accounting changes?	R110	— — — — —	—
Comparative financial statements?	R111	— — — — —	—
Business combinations?	R112	— — — — —	—
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?	R113	— — — — —	—
If an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements?	R114	— — — — —	—
Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?	R115	— — — — —	—
Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?	R116	— — — — —	—
Are required disclosures made concerning related party transactions?	R117	— — — — —	—
Are required disclosures made regarding significant dependence on one or more major customers or suppliers?	R118	— — — — —	—

<sup>a</sup> If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code						MFC Ref*
Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?	R119	—	—	—	—	—	—	—
Are foreign operations and export sales adequately disclosed?	R120	—	—	—	—	—	—	—
Are nonmonetary transactions accounted for and disclosed?	R121	—	—	—	—	—	—	—
With respect to contingencies and commitments:								
Are loss contingencies disclosed and/or accrued?	R122	—	—	—	—	—	—	—
Are other contingencies and commitments adequately disclosed?	R123	—	—	—	—	—	—	—
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?	R124	—	—	—	—	—	—	—
Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern?	R125	—	—	—	—	—	—	—
Is the required information on defined benefit pension plans adequately disclosed?	R126	—	—	—	—	—	—	—
Are all other pension plans adequately disclosed?	R127	—	—	—	—	—	—	—
Is the required information on defined benefit post-retirement plans adequately disclosed?	R128	—	—	—	—	—	—	—
Are post-retirement health care and life insurance benefits under FAS No. 81 and FASB Technical Bulletin 87-1 properly disclosed?	R129	—	—	—	—	—	—	—
If the entity is or has been a "development stage enterprise," are adequate disclosures made?	R130	—	—	—	—	—	—	—
Do the financial statements, where required, include appropriate disclosures of futures contracts?	R131	—	—	—	—	—	—	—
<b>Balance Sheet</b>								
Is the presentation appropriate and disclosure adequate regarding:								
Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?	R132	—	—	—	—	—	—	—
Valuation allowances?	R133	—	—	—	—	—	—	—
Restricted cash, including compensating balances?	R134	—	—	—	—	—	—	—
Marketable equity securities?	R135	—	—	—	—	—	—	—
Other marketable securities?	R136	—	—	—	—	—	—	—
Accounts and Notes Receivable:								
Unbilled receivables?	R137	—	—	—	—	—	—	—
Loans and related origination fees?	R138	—	—	—	—	—	—	—
Effect of interest rates which do not reflect market rates?	R139	—	—	—	—	—	—	—
Receivables related to troubled debt restructurings?	R140	—	—	—	—	—	—	—
Other receivables?	R141	—	—	—	—	—	—	—
Inventories?	R142	—	—	—	—	—	—	—
Investments?	R143	—	—	—	—	—	—	—

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	QUES.	Engagement Code	MFC Ref*
Property and equipment, including accounting for assets of discontinued operations, and capitalized interest?	R144	— — — — —	—
Sales-type, direct financing, and operating leases of lessors?	R145	— — — — —	—
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges?	R146	— — — — —	—
Pledged assets?	R147	— — — — —	—
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	R148	— — — — —	—
Current liabilities?	R149	— — — — —	—
Short-term liabilities expected to be refinanced?	R150	— — — — —	—
Notes payable and other debt:			
Maturities and rates?	R151	— — — — —	—
Other terms and covenants?	R152	— — — — —	—
Effect of interest rates which do not reflect market rates?	R153	— — — — —	—
Effect of troubled debt restructurings?	R154	— — — — —	—
Effect of early extinguishment of debt?	R155	— — — — —	—
Maturities and sinking fund requirements for the next five years?	R156	— — — — —	—
Capital leases of lessees?	R157	— — — — —	—
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees and deferred revenue?	R158	— — — — —	—
Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	R159	— — — — —	—
Stock option and stock purchase plans?	R160	— — — — —	—
Stock subscriptions receivable?	R161	— — — — —	—
Retained earnings, including appropriations thereof and restrictions on dividends?	R162	— — — — —	—
Changes in stockholders' equity?	R163	— — — — —	—
Redemption requirements on capital stock for the next five years?	R164	— — — — —	—
<b>Income Statement</b>			
Are the important components of the income statement separately disclosed?	R165	— — — — —	—
Is the presentation appropriate and disclosure adequate regarding:			
Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?	R166	— — — — —	—

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	QUES.	Engagement Code	MFC Ref*
Gains and losses, realized and unrealized, from marketable equity securities?	R167	— — — — —	—
Income and income taxes on investments in securities accounted for on the equity method?	R168	— — — — —	—
Research and development costs?	R169	— — — — —	—
Computer software costs?	R170	— — — — —	—
Interest costs?	R171	— — — — —	—
Discount or premium on notes receivable or payable?	R172	— — — — —	—
Depreciation?	R173	— — — — —	—
Compensatory stock issuance plan?	R174	— — — — —	—
Deferred compensation agreements?	R175	— — — — —	—
Sales transactions in which the buyer has a right to return the product?	R176	— — — — —	—
Product financing arrangements?	R177	— — — — —	—
Operating leases and rent expenses of lessees?	R178	— — — — —	—
Income taxes, computed under the early application of AC Sec. 125 (FAS No. 109), to include:			
The types of temporary differences that cause significant portions of a deferred tax liability or asset?	R179	— — — — —	—
Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status?	R180	— — — — —	—
Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pre-tax income or loss from continuing operations?	R181	— — — — —	—
Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes?	R182	— — — — —	—
Other information concerning tax expense, benefits and the effect of income taxes?	R183	— — — — —	—
Income taxes computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes?	R184	— — — — —	—
Discontinued operations?	R185	— — — — —	—
Extraordinary and unusual items?	R186	— — — — —	—
<b>Statement of Cash Flows</b>			
Is a statement of cash flows presented for each period for which results of operations are provided?	R187	— — — — —	—
Does it report cash provided or used by investing, financing, and operating activities?	R188	— — — — —	—

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	QUES.	Engagement Code	MFC Ref*
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with the amounts on the balance sheet?	R189	— — — — —	—
Does it provide a reconciliation between net income and net cash flow from operating activities?	R190	— — — — —	—
Are noncash investing and financing activities disclosed?	R191	— — — — —	—
If the indirect method of reporting net cash flows from operating activities was used, were the amounts of interest and income taxes paid disclosed?	R192	— — — — —	—
Do components of the financial statements appear to have been shown at "gross" and not "net" value?	R193	— — — — —	—
<b>Other</b>			
If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide?	R194	— — — — —	—
<b>Summary</b>			
Does it appear that disclosures in the financial statements are reasonably adequate?	R195	— — — — —	—

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## II. GENERAL REVIEW PROCEDURES

	QUES.	Engagement Code	MFC Ref*
Was an engagement letter issued or a written memorandum of an oral understanding prepared to provide a record of the understanding with the client as to the services to be provided? (professional standards requires the accountant to establish an understanding with the entity, preferably, though not required to be, in writing)	R201	— — — — —	—
Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration preferably, though not required to be, in writing (e.g., proposed work program, manpower requirements, etc.)?	R202	— — — — —	—
If the engagement was originally intended to be an audit, rather than a review of financial statements, did the accountant consider:			
The reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances?	R203	— — — — —	—
The additional audit effort required to complete the audit?	R204	— — — — —	—
The estimated additional cost to complete the audit?	R205	— — — — —	—
Did the accountant's inquiries and analytical procedures consist of the following:			
Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them?	R206	— — — — —	—
Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements?	R207	— — — — —	—
Analytical procedures designed to identify relationships and individual items that appear to be unusual?	R208	— — — — —	—
Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements?	R209	— — — — —	—
Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles?	R210	— — — — —	—
Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees?	R211	— — — — —	—

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	QUES.	Engagement Code	MFC Ref *
Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements?	R212	— — — — —	—
If the accountant became aware that information that came to the accountant's attention was incorrect, incomplete, or otherwise unsatisfactory, did the accountant perform additional procedures as deemed necessary to achieve limited assurance that there were no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles?	R213	— — — — —	—
Do the accountant's working papers adequately reflect:			
The matters covered in inquiry and analytical procedures?	R214	— — — — —	—
Unusual matters that were considered during the performance of the review, including their disposition?	R215	— — — — —	—
If the accountant decided to obtain a representation letter from the owner, manager, or chief executive officer, does it appear to be appropriate in the circumstances? Note: Under the early application of the Omnibus Statement on Standards for Accounting and Review Services, the accountant is required to obtain a representation letter.	R216	— — — — —	—
If any circumstances were encountered by the accountant that precluded the accountant from performing inquiries and analytical procedures as deemed necessary:			
Did the accountant consider whether these circumstances would have resulted in an incomplete review and therefore afford the accountant an inadequate basis for issuing a review report?	R217	— — — — —	—
Did the accountant consider whether these same circumstances would also preclude the accountant from issuing a compilation report on the entity's financial statements?	R218	— — — — —	—
Do such determinations by the accountant appear to be proper?	R219	— — — — —	—
Have all questions, exceptions or notes, posed during the work been followed up and resolved?	R220	— — — — —	—
If there is an indication that the accountant had become aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards, in determining an appropriate course of action, and does the matter appear to be properly resolved?	R221	— — — — —	—

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## III. FUNCTIONAL AREAS

	QUES.	Engagement Code	MFC Ref*
<b>Independence</b>			
If anything has been noted which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?	R301	— — — — —	—
Have personnel been appropriately informed as to the need to observe independence requirements with regard to this client and any other related nonclient parent, investor, investee, subsidiary or affiliate?	R302	— — — — —	—
Was appropriate assurance of independence obtained from other firms engaged to perform segments of the engagement?	R303	— — — — —	—
Were the fees (billed/unbilled) for the prior years services paid prior to issuance of the current year's report?	R304	— — — — —	—
<b>Assigning Personnel to Engagements</b>			
Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?	R305	— — — — —	—
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?	R306	— — — — —	—
<b>Consultation</b>			
Was there appropriate consultation and documentation thereof:			
In situations specified by firm policy?	R307	— — — — —	—
Where the complexity or unusual nature of the issue warranted it?	R308	— — — — —	—
Were the firm's conclusions consistent with professional standards?	R309	— — — — —	—
If the engagement records indicated a difference of opinion between personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?	R310	— — — — —	—
<b>Supervision</b>			
Does it appear that engagement planning was appropriate?	R311	— — — — —	—
Did the partner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey approval or modifications to the engagement staff?	R312	— — — — —	—
Does it appear that involvement by the partner and manager was both adequate and appropriately timed to provide for any planning and supervision as the job progressed?	R313	— — — — —	—
Were forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:			
Planning checklist?	R314	— — — — —	—
Work programs?	R315	— — — — —	—
Financial statement disclosures?	R316	— — — — —	—

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	<u>QUES.</u>	<u>Engagement Code</u>	<u>MFC Ref*</u>
<b>Working paper preparation and reading of financial statements?</b>	R317	— — — — —	—
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies applicable to a review?	R318	— — — — —	—
Were the firm's guidelines for the form and content of working papers for a review complied with?	R319	— — — — —	—
Was an appropriate review made of the working papers, report and financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?	R320	— — — — —	—
<b>Advancement</b>			
If required by firm policy, was the staff on this engagement appropriately evaluated?	R321	— — — — —	—
<b>Acceptance and Continuance of Clients</b>			
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?	R322	— — — — —	—
<b>Professional Development</b>			
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?	R323	— — — — —	—

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# QRP Section 6300

## *Summary Compilation Engagement Checklist*

### Summary Checklist for Reviews of Compilation Engagements

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II.	General Procedures .....	6307
III.	Functional Areas	
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	Assigning Personnel to Engagements .....	6308
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	Supervision .....	6308
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	Acceptance and Continuance of Clients .....	6309
	Professional Development .....	6309

## I. REPORT AND FINANCIAL STATEMENTS

	QUES.	Engagement Code	MFC Ref <sup>a</sup>
<b>Accountant's Report</b>			
Is the report dated in conformity with the requirements of professional standards?	C101	— — — — —	—
Does the report adequately disclose all required matters and does its language conform to that required by professional standards including appropriate language describing any modification from professional standards, if appropriate?	C102	— — — — —	—
Does the report cover all periods for which financial statements are presented?	C103	— — — — —	—
If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards?	C104	— — — — —	—
If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking?	C105	— — — — —	—
Does each page of financial statements that have been compiled include a reference to the accountant's report?	C106	— — — — —	—
<b>Financial Statements and Notes</b>			
<b>General</b>			
Are the financial statements suitably titled?	C107	— — — — —	—
Do the financial statements appear to be free from material error?	C108	— — — — —	—
Is the presentation appropriate and disclosure adequate regarding:			
Significant accounting policies?	C109	— — — — —	—
Accounting changes?	C110	— — — — —	—
Comparative financial statements?	C111	— — — — —	—
Business combinations?	C112	— — — — —	—
Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards?	C113	— — — — —	—
If an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements?	C114	— — — — —	—
Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed?	C115	— — — — —	—
Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed?	C116	— — — — —	—
Are required disclosures made concerning related party transactions?	C117	— — — — —	—

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	QUES.	Engagement Code	MFC Ref <sup>a</sup>
Are required disclosures made regarding significant dependence on one or more major customers or suppliers?	C118	— — — — —	—
Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed?	C119	— — — — —	—
Are foreign operations and export sales adequately disclosed?	C120	— — — — —	—
Are nonmonetary transactions accounted for and disclosed?	C121	— — — — —	—
With respect to contingencies and commitments:			
Are loss contingencies disclosed and/or accrued?	C122	— — — — —	—
Are other contingencies and commitments adequately disclosed?	C123	— — — — —	—
Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?	C124	— — — — —	—
Are the financial statements adjusted where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern?	C125	— — — — —	—
Is the required information on defined benefit pension plans adequately disclosed?	C126	— — — — —	—
Are all other pension plans adequately disclosed?	C127	— — — — —	—
Is the required information on defined benefit post-retirement plans adequately disclosed?	C128	— — — — —	—
Are postretirement health care and life insurance benefits under FAS No. 81 and FASB Technical Bulletin 87-1 properly disclosed?	C129	— — — — —	—
If the entity is or has been a "development stage enterprise," are adequate disclosures made?	C130	— — — — —	—
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Inventories?	C142	— — — — —	—
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Sales-type, direct financing, and operating leases of lessors?	C145	— — — — —	—
Other assets, including intangible assets, unamortized computer software costs, deferred tax assets and deferred charges?	C146	— — — — —	—
Pledged assets?	C147	— — — — —	—
Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	C148	— — — — —	—
Current liabilities?	C149	— — — — —	—
Short-term liabilities expected to be refinanced?	C150	— — — — —	—
Notes payable and other debt:			
Maturities and rates?	C151	— — — — —	—
Other terms and covenants?	C152	— — — — —	—
Effect of interest rates which do not reflect market rates?	C153	— — — — —	—
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Effect of early extinguishment of debt?	C155	— — — — —	—
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Capital leases of lessees?	C157	— — — — —	—
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, and special termination benefits to employees, and deferred revenue?	C158	— — — — —	—
Capital stock (number of shares authorized, issued, and outstanding, par or stated value per share, rights and preferences of various classes)?	C159	— — — — —	—
Stock option and stock purchase plans?	C160	— — — — —	—
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Are the important components of the income statement separately disclosed?	C165	— — — — —	—

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<b>Other</b>			
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Was information obtained about the accounting principles and practices of the industry in which the entity operates and about the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements or, if information was obtained from prior engagements, was it updated for changed circumstances, and given appropriate consideration preferably, though not required to be, in writing (e.g., proposed work program, manpower requirements, etc.)?	C202	— — — — —
If the engagement was originally intended to be an audit or review, rather than a compilation, did the accountant consider:		
The reason given for the client's request, particularly the implications of a restriction on the scope of the audit or review, whether imposed by the client or by circumstances?	C203	— — — — —
The additional effort required to complete the audit or review?	C204	— — — — —
The estimated additional cost to complete the audit or review?	C205	— — — — —
Is there an indication, in accordance with firm policy, that the accountant read the compiled financial statements and considered whether such financial statements appeared to be appropriate in form and free from obvious material errors?	C206	— — — — —
If the accountant became aware that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling financial statements, did the accountant obtain additional or revised information?	C207	— — — — —
Have all questions, exceptions or notes posed during the work been followed up and resolved?	C208	— — — — —
If the accountant became aware that information supplied by the entity was incorrect, incomplete or otherwise unsatisfactory subsequent to the date of the report, did the accountant consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved?	C209	— — — — —

<sup>a</sup> If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

## III. FUNCTIONAL AREAS

	QUES.	Engagement Code	MFC Ref*
<b>Independence</b>			
If anything has been noted which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered? If the accountant was not independent, was the report appropriately modified?	C301	— — — — —	—
Have personnel been appropriately advised about the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate?	C302	— — — — —	—
Were the fees (billed/unbilled) for the prior years services paid prior to issuance of the current year's report?	C303	— — — — —	—
<b>Assigning Personnel to Engagements</b>			
Were scheduling and staffing requirements identified on a timely basis and approved by the appropriate personnel?	C304	— — — — —	—
Does it appear that engagement personnel possessed an appropriate mix of experience and training in relation to the complexity or other requirements of the engagement, and the extent of supervision provided?	C305	— — — — —	—
<b>Consultation</b>			
Was there appropriate consultation and documentation thereof:			
In situations specified by firm policy?	C306	— — — — —	—
Where the complexity or unusual nature of the issue warranted it?	C307	— — — — —	—
Were the firm's conclusions consistent with professional standards?	C308	— — — — —	—
If the engagement records indicated a difference of opinion between personnel and/or a specialist or other consultant, was the difference resolved in accordance with firm policy and was the basis of the resolution appropriately documented?	C309	— — — — —	—
<b>Supervision</b>			
Does it appear that engagement planning was appropriate?	C310	— — — — —	—
Were forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:			
Planning checklist?	C311	— — — — —	—
Work programs?	C312	— — — — —	—
Financial statement disclosures?	C313	— — — — —	—
Working paper preparation and reading of financial statements?	C314	— — — — —	—
If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of compliance with the firm's policies for compilation engagements?	C315	— — — — —	—
Were the firm's guidelines for the form and content of working papers complied with?	C316	— — — — —	—

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

	QUES.	Engagement Code	MFC Ref*
Was an appropriate review made of the working papers, report and the financial statements, by a person whose position in the firm is commensurate with that responsibility, to determine that work performed is complete and conforms to professional standards and firm policy?	C317	— — — — —	
<b>Advancement</b>			
If required by firm policy, was the staff on this engagement appropriately evaluated?	C318	— — — — —	
<b>Acceptance and Continuance of Clients</b>			
Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?	C319	— — — — —	
<b>Professional Development</b>			
Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?	C320	— — — — —	

\* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

**QRP Section 7000****OFF-SITE QUALITY REVIEWS FOR FIRMS THAT  
PERFORM NO AUDITS**

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<b>7500</b>	<b>Engagement Statistics Data Sheet—Off-Site Quality Reviews</b>

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[The next page is 7101.]

# QRP Section 7100

## *Instructions to Firms Having an Off-Site Quality Review*

.01 An off-site quality review is available to firms that do not perform audits of historical or prospective financial statements but that do provide compilation and/or review services to certain of their clients. Off-site quality reviews are administered by state CPA societies that elect to participate in the program or by the AICPA Quality Review Division. One of those entities, as appropriate (the *administering entity*) will contact your firm at the appropriate time to make arrangements for the conduct of the review. In preparation for the review, you should read the applicable sections of *Standards for Performing and Reporting on Quality Reviews* issued by the AICPA Quality Review Executive Committee (at least the sections headed Introduction, General Considerations, Performing Off-Site Quality Reviews, Reporting on Reviews, and Acceptance of Reviews).

.02 Prior to the review, the administering entity or the assigned reviewer will ask you to provide summarized information showing the number of review and compilation clients and the level of service provided to those clients, classified into major industry categories and broken down by each proprietor, partner or shareholder of the firm who is responsible for the issuance of review or compilation reports. The form that will be used for this purpose is reproduced in Appendix A to these instructions.

.03 Discuss with the reviewer the twelve-month period to be covered by the review. That period should end within six months of the performance of the review.

.04 Based on that information, the administering entity or the assigned reviewer will advise you of the types of engagements to be selected for review. (For example, you may have reported that Owner A issues review reports on four construction contractors, two retailers, and ten manufacturers, while Owner B issues compilation reports on thirty doctors and review reports on five restaurants. You may be asked to submit one of Owner A's review reports on a construction contractor and one of Owner B's compilation reports on a doctor. You will select the specific engagements following those instructions.)

.05 The number of engagements selected should adhere to the following guidelines:

- a. Select one review or compilation engagement involving a report on a complete set of financial statements (full disclosure engagement)—as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting—for each proprietor, partner, or shareholder responsible for the issuance of reports. However, at least two engagements must be selected for the firm.
- b. In addition to the selection made in .05a. above, select for the firm as a whole, one compilation engagement involving a set of financial statements that omits substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting. However, if the firm's accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, select two of these types of engagements.

.06 Within thirty days of being notified by the reviewer or the administering entity of the type of engagements selected for review, the firm is asked to submit the following information for each engagement selected—

- a. A copy of the financial statements and accountant's report. The client's name may be deleted and, if that is done, the engagement should be assigned a code number by the firm. The firm should retain a record of those code numbers to facilitate responding to any questions by the reviewer in the course of the review.

- b. A completed "engagement questionnaire" (see Appendix B).

.07 The engagements selected should have been performed within the agreed-upon review year. However, if a more recent report has been issued that falls outside of the review year, that more recent report should be selected.

.08 A firm may be dropped from the quality review program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .06 in sufficient time to enable the reviewer to perform the off-site quality review prior to the required date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

.09 During the course of the review, the reviewer may have questions about the selected engagements. The firm is expected to respond promptly to questions raised during the review, whether those questions are raised orally or in writing.

.10 Upon receipt of the report on the review, the firm should prepare a letter of response to any deficiencies noted in the report. The report and the letter of response, if any, should be submitted to the administering entity within thirty days of the date the report was received from the reviewer.

.11 The administering entity will *not* make the report on the firm's off-site quality review available to the public. The report should not be distributed by the firm to its personnel, clients or others until the firm has received a formal notification that it has been accepted by the administering entity.

## Appendix A

## AICPA Quality Review Program

## INFORMATION NEEDED TO ASSIGN AN OFF-SITE REVIEWER

1. Firm Name \_\_\_\_\_
2. Did your firm perform any audits during the last twelve months? Yes ☐ No ☐ If yes, please indicate the date that you issued your last audit report.   /  /
3. Does your firm plan to perform any audit engagements during the next twelve months? Yes ☐ No ☐
4. Whenever possible, we select a reviewer who practices in the state in which your firm's main office is located unless you object. However, we will not select a reviewer located in the immediate geographic area of that office or such other geographic areas specified by you because, for example, you have a significant office or client in that area. We use the first three digits of the postal zip code to define a geographic area.
  - a. Do you object to a reviewer being selected from other areas in the state in which your main office is located?  
Yes ☐ No ☐ If yes, the reviewer will be selected from a state other than the state in which your main office is located.
  - b. If the answer to 3.a. is no, please indicate the first three digits of the zip codes of those areas within your state—other than the area in which your main office is located—from which you would *not like* a reviewer to be selected.<sup>1</sup>

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5. Please provide the information on page 7104 concerning the number of review and compilation clients and the nature of the level of service provided to those clients during the last twelve months. This information should be classified into major categories and broken down by each owner of the firm (proprietor, partner, or shareholder) who is responsible for the issuance of review or compilation reports. Please indicate the period covered by this information.   /  /   to   /  /

<sup>1</sup> To determine whether there are zip code areas which you would like excluded, you may wish to refer to your local phone book(s), client lists, or mailing lists, if any.



## OFF-SITE QUALITY REVIEW ENGAGEMENT SUMMARY FORM \*\*\*

Number of Engagements Performed <sup>4</sup>

Industry of the Client <sup>2</sup>	Level of Service Provided <sup>3</sup>	Owner 1	Owner 2	Owner 3
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____

Signature \_\_\_\_\_

Date \_\_\_\_\_

Title \_\_\_\_\_

\*\*\* Please refer to par. .02 on page 7101 for instructions in completing this form.

<sup>2</sup> Please use the industry codes on page 7105.<sup>3</sup> Please use the level of service codes on page 7105.<sup>4</sup> Each monthly compilation engagement counts as one engagement.

**Level of Service Codes**

Please use the following codes to reflect the level of service provided:

- A Agreed-upon procedure engagement
- R Review of historical or personal financial statements
- C Compilation of historical or personal financial statements with disclosures
- CO Compilation of historical or personal financial statements that omits substantially all disclosures
- CP Compilation of prospective financial information

**Industry Codes**

- |   |   |
|---|---|
| 105 Advertising                                 | 235 Leasing Companies   |
| 110 Agricultural, Livestock, Forestry & Fishing | 240 Life Insurance Companies  |
| 115 Airlines                                    | 245 Manufacturing   |
| 120 Auto Dealerships                            | 250 Mortgage Banking  |
| 125 Banking                                     | 255 Motor Carriers  |
| 130 Broadcasting and Entertainment              | 260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations) |
| 135 Brokers and Dealers in Securities           | 265 Pension Plans (including ERISA audits)  |
| 140 Brokers and Dealers in Commodities          | 268 Personal Financial Statements   |
| 145 Casinos                                     | 270 Professional Services (Doctors, Lawyers, Architects, etc.)                          |
| 150 Colleges and Universities                   | 275 Publishing  |
| 155 Common Interest Realty Associations         | 280 Real Estate Brokerage   |
| 160 Computer Software Development and Sales     | 285 Real Estate Development   |
| 165 Construction Contractors                    | 290 Real Estate Management  |
| 170 Continuing Care Retirement Communities      | 295 Real Estate Investment Trusts   |
| 175 Credit Unions                               | 300 Reinsurance Companies   |
| 180 Extractive Industries—Oil and Gas           | 305 Retail Trade  |
| 185 Extractive Industries—Mining                | 310 Savings and Loan Associations   |
| 190 Finance Companies                           | 315 Small Loan Companies  |
| 195 Franchisors                                 | 320 School Districts  |
| 200 Fire and Casualty Insurance Companies       | 325 State and Local Government  |
| 205 Government Contractors                      | 330 Telephone Companies   |
| 210 Health Maintenance Organizations            | 335 Utilities   |
| 215 Hospitals and Nursing Homes                 | 340 Wholesale Distributors  |
| 220 Hotels and Restaurants                      | 999 Other (describe)  |
| 222 HUD   |   |
| 225 Insurance Agents and Brokers                |   |
| 230 Investment Companies and Mutual Funds       |   |

## Appendix B

## AICPA Quality Review Program

## ENGAGEMENT QUESTIONNAIRE—OFF-SITE QUALITY REVIEWS

(To Be Completed by Reviewed Firm)

FIRM NAME \_\_\_\_\_

## General Data

Engagement Name or Code No. \_\_\_\_\_ (If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, etc. and mark the financial statements correspondingly.)

Period covered by financial statements \_\_\_\_\_ Total assets \$ \_\_\_\_\_

Date of report \_\_\_\_\_ Long-term debt \$ \_\_\_\_\_

Date report released \_\_\_\_\_ Equity \$ \_\_\_\_\_

Net sales \$ \_\_\_\_\_

Net income \$ \_\_\_\_\_

Major lines of business \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

	Name	Hours on Engagement	Number of Years on Job
Accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner)	_____	_____	_____
Accountant in charge of field work (for example, manager, supervisor, or senior accountant)	_____	_____	_____
Other personnel (number only)	_____	_____	_____

## Nature of Entity:

- ☐ Independent entity  
☐ Consolidated or combined group  
☐ Subsidiary, division or branch  
☐ Other (explain) \_\_\_\_\_

## Nature of Service:

- ☐ Review engagement  
☐ Compilation engagement  
☐ Compilation engagement—substantially all required disclosures omitted  
☐ Other (explain) \_\_\_\_\_

**Financial Statements Included:**

- ( ) Balance sheet  
 ( ) Income statement  
 ( ) Statement of cash flows  
 ( ) Statement of retained earnings  
 ( ) Supplementary information (describe) \_\_\_\_\_

( ) Other (explain) \_\_\_\_\_

**Accounting Basis for Financial Statements:**

- ( ) Generally accepted accounting principles  
 ( ) Cash basis  
 ( ) Income tax basis  
 ( ) Other (explain) \_\_\_\_\_

YES      NO

**Specific Engagement Questions**

- A. Is the firm independent with respect to this entity? (Explain a "no" answer in the "commentary" section of this questionnaire.) \_\_\_\_\_
- B. Indicate whether the entity had any balances, transactions, events, or agreements of the following types that are *not* disclosed in the financial statements: (Do not answer this question for engagements to compile financial statements that omit substantially all required disclosures.)
1. Accounting changes. \_\_\_\_\_
  2. Business combinations. \_\_\_\_\_
  3. Related party transactions (including receivables and payables from officers, employees and affiliates). \_\_\_\_\_
  4. Leasing arrangements. \_\_\_\_\_
  5. Pension plans. \_\_\_\_\_
  6. Post retirement health care and life insurance benefits. \_\_\_\_\_
  7. Stock option or purchase plans. \_\_\_\_\_
  8. Contingencies. \_\_\_\_\_
  9. Commitments. \_\_\_\_\_
  10. Significant events between the balance sheet and report dates. \_\_\_\_\_
  11. Pledging of assets. \_\_\_\_\_
  12. Loan agreements or covenants imposing significant restrictions. \_\_\_\_\_

	<u>YES</u>	<u>NO</u>
13. Capital stock with significant rights or preferences.	_____	_____
14. Discontinued operations.	_____	_____
15. Extraordinary or unusual items.	_____	_____
16. Restrictions on cash balances.	_____	_____
17. Allowance for doubtful accounts.	_____	_____
18. Other valuation accounts.	_____	_____
19. Income tax expense, benefits, temporary differences, investment tax credits and other information on the effect of income taxes.	_____	_____
20. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate.	_____	_____
21. Troubled debt restructurings.	_____	_____
22. Unusual or specialized accounting policies.	_____	_____
23. Research and development costs.	_____	_____
24. Computer software costs.	_____	_____
25. Product financing arrangements.	_____	_____
26. Foreign operations.	_____	_____
27. Foreign currency transactions.	_____	_____
28. Nonmonetary transactions.	_____	_____
C. Were there any disagreements with the client on this engagement that, if not resolved to the firm's satisfaction, would have caused the firm to modify its report or to withdraw from the engagement?	_____	_____
D. If the answer to any item under questions B and C above is "yes," provide sufficient information in the "commentary" section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed.	_____	_____

**COMMENTARY ON ENGAGEMENT QUESTIONS**

*Question  
Number*

*Commentary*

---

**NOTE: Attach additional sheets if required.**

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[The next page is 7201.]

# QRP Section 7200

## *Instructions to Reviewers Performing Off-Site Quality Reviews*

### Guidance on Performing Off-Site Quality Reviews

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**Instructions to Reviewers on Performing Off-Site Quality Reviews****Introduction**

**.01** These materials have been developed based on the *Standards for Performing and Reporting on Quality Reviews* and materials contained in the *Quality Review Program Manual* related to off-site reviews.

**.02** A firm that issues only compilation or review reports can have an off-site quality review of the reports and the related historical or prospective financial statements. (Those firms may also elect to have an on-site quality review.) Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with this requirement.

**.03** Information concerning the reviewed firm or any of its clients or personnel is confidential and cannot be disclosed to anyone not involved in carrying out the review or administering the quality review program.

**.04** The objective of an off-site quality review is to provide the reviewer with a reasonable basis for expressing *limited* assurance that the compilation and review engagements submitted for review do not depart in a material respect from the requirements of professional standards.

**.05** An off-site quality review consists *only* of reading the accountant's compilation or review report and the related historical or prospective financial statements submitted by the firm, together with certain background information and representations about the engagements provided by the reviewed firm.

**.06** An off-site quality review does *not* include a review of the working papers prepared on the selected compilation or review engagements, tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in an on-site quality review.

**Engagement Selection Guidelines**

**.07** Prior to the review, the administering entity or the assigned reviewer will ask the reviewed firm to provide summarized client information showing the number of review and compilation clients and the nature of the highest level of service provided to those clients, classified into major industry categories and broken down by each proprietor, partner, or shareholder of the firm responsible for the issuance of review or compilation reports. The form that will be used for this purpose is reproduced in Exhibit 1 to these materials.

**.08** Either the reviewer or the administering entity should discuss with the reviewed firm the twelve month period to be covered by the review. That period should end within six months of the performance of the review. It does not have to coincide with the firm's fiscal year.

**.09** Based on the summarized client information, the administering entity or the reviewer will select the number and types of engagements to be reviewed.

**.10** The number of engagements selected should adhere to the following guidelines:

- a. Select one review or compilation engagement involving a report on a complete set of financial statements (full disclosure engagement)—as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting—for each proprietor, partner, or shareholder responsible for the issuance of reports. However, at least two engagements must be selected for the firm.
- b. In addition to the selections made in .10a above, select for the firm as a whole, one compilation engagement involving a set of financial statements that omits substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting. However, if the firm's accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, select two of these types of engagements.



**.11** Exhibit 2 shows how the guidelines in this section can be applied to five sample firms.

**.12** The types of engagements selected should also adhere to the following guidelines:

- a. Include both review and compilation engagements, if both levels of service are provided.
- b. Attempt to include clients operating in different industries (especially high risk industries).
- c. Consider engagements involving prospective financial information as well as those involving historical financial statements.

**.13** The AICPA and many state societies administering off-site quality reviews advise reviewers they appoint of the number of engagements to be selected. The reviewer should consult with the entity that made the appointment:

- a. If the reviewer finds that the number of engagements he/she has been instructed to select does not conform with the stated guidelines.
- b. If the reviewer has reason to believe that he/she should select more than the number of engagements specified by the administering entity.

**.14** Within 30 days after the reviewer or the administering entity provides the firm with a description of the number and types of engagements to be reviewed, the firm should select the engagements in accordance with those specifications and submit the following information to the reviewer or the administering entity (as applicable) for each engagement:

- a. A copy of the most recent financial statements and the accountant's report. The client's identity may be masked and assigned a code number. The reviewed firm should keep a record of those code numbers to be able to respond to any questions by the reviewer.
- b. A completed Engagement Questionnaire.

**.15** The engagements selected should have been performed within the agreed-upon review year. However, if a more recent report has been issued that falls outside of the review year, that more recent report should be selected.

**.16** A firm may be dropped from the quality review program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .14 in sufficient time to enable the reviewer to perform the off-site quality review prior to the required date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

## **Performing the Review**

**.17** Off-site quality reviews must be documented using the programs and checklists issued by the AICPA Quality Review Executive Committee. These materials include a Reviewer's Checklist (Appendix A) which includes an overview of the way in which an off-site quality review is to be conducted.

**.18** Reviewers should review the engagements submitted along with the background information provided by the firm. Questions and possible deficiencies noted during the review should be documented on Matter for Further Consideration (MFC) forms and discussed with the reviewed firm. The reviewer may obtain the firm's response to the matters noted on the MFC forms by telephone or in writing.

**.19** After reviewing the selected engagements and discussing your findings with the reviewed firm, the Engagement Statistics Data Sheet (Section 7500) should be completed. The information included on this sheet should be consistent with the information included in the report issued on the review. Exhibit 3 includes some further guidance on completing this sheet.

## Off-Site Review Reports

**.20** Within thirty days of the date of the completion of an off-site quality review, the reviewer should furnish the reviewed firm with a written report. However, before issuing the final written report, the reviewer should communicate his/her conclusions and to the reviewed firm. At that time, the reviewed firm should be informed of all significant findings that will be disclosed in the report.

**.21** The report on an off-site review performed by a firm should be issued on the letterhead of the firm performing the review and should be signed by the firm. All other reports should be issued on the letterhead of the entity that appointed the reviewer, which may be a state CPA society or the AICPA Quality Review Division, and should be signed by the reviewer. Ordinarily, the report should be dated as of the completion of the review procedures.

**.22** The report on an off-site quality review should:

- a. Indicate that the review was performed in accordance with the standards established by the AICPA.
- b. Indicate that the reviewed firm has represented that it performed no audits of historical or prospective financial statements during the period under review.
- c. Describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm's quality control policies and procedures for its accounting practice.
- d. Indicate the reviewer's conclusion—
  - (i) As to whether anything came to the reviewer's attention that caused the reviewer to believe that the engagements submitted did not conform with professional standards in all material respects; or
  - (ii) That the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice.
- e. If applicable—
  - (i) Describe reportable matters not significant enough to affect the reviewer's conclusion.
  - (ii) Describe the general nature of significant departures from professional standards.

**.23** Reviewers may issue—

- a. An unmodified report.
- b. A report qualified for significant departures from professional standards.
- c. An adverse report expressing the conclusion that the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review.

**.24** The reviewer also should note in the report other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice.

**.25** The last paragraph of the report is the most significant to some users. Therefore, the reviewer's unmodified or adverse conclusion is described in the last paragraph of the report when those types of reports are issued. When the report expresses a conclusion qualified for significant findings, the last paragraph should discuss those findings.

**.26** A letter of comments is not issued in connection with an off-site quality review since all reportable findings are included in the report.

**.27** When the engagement reviews disclose significant departures from professional standards, those departures should be clearly described in the off-site review report. A significant departure from professional standards involves:

- a. A departure from the measurement or disclosure requirements of generally accepted accounting principles or, where applicable, another comprehensive basis of accounting that significantly affects the user's understanding of the financial information presented and that is not described in the accountant's report. For example:
  - Failure to provide an allowance for doubtful accounts when it is probable that a material amount of accounts receivable is uncollectible
  - Use of an inappropriate method of revenue recognition
  - Failure to capitalize financing leases or to make important disclosures about significant leases
  - Failure to disclose significant related party transactions
  - Failure to disclose key assumptions in a financial forecast
- b. The issuance of a review or compilation report that is misleading in the circumstances. For example:
  - A review report that refers to conformity with generally accepted accounting principles when the financial statements have been prepared on another comprehensive basis of accounting
  - A review report on financial statements that omits substantially all of the disclosures required by generally accepted accounting principles
  - A compilation report that does not note the fact that substantially all disclosures have been omitted

**.28** An off-site quality review does not provide the reviewer with a basis for expressing any form of assurance on the reviewed firm's quality control policies and procedures, but it may provide the reviewer with a basis for expressing a conclusion that the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year under review.

**.29** In reaching a decision on whether the conclusion in the report should be qualified or adverse when there are significant departures from professional standards, the reviewer should consider:

- a. The pattern and pervasiveness of significant departures from professional standards, as described above, that were disclosed by the review. For example, an adverse opinion might not be appropriate if the departures were isolated to:
  - The work of one partner.
  - Engagements in one industry.
  - The same accounting or reporting issue.
- b. The response of the reviewed firm to the departures noted.

**.30** The reviewer may note other departures from professional standards that are not deemed to be significant but should be considered by the reviewed firm in evaluating its quality control policies and procedures. The reviewer should describe these findings in the review report.

**.31** Illustrations of off-site quality review reports are included in Exhibits 4 - 9 to this document as described below:

Unmodified Report on a Firm That Performs Compilations and Reviews . . . . .	Exhibit 4
Unmodified Report on a Firm That Performs Compilations Only . . . . .	Exhibit 5
Report Noting Departures from Professional Standards That Are Not Significant . . . . .	Exhibit 6
Report Qualified for Significant Departures from Professional Standards . . . . .	Exhibit 7
Report Qualified for Significant Departures from Professional Standards and Modified for Other Departures . . . . .	Exhibit 8
Adverse Off-Site Quality Review Report . . . . .	Exhibit 9

## After the Review

**.32** Within thirty days of the completion of an off-site review, the reviewer should furnish the reviewed firm with a written report and remind the reviewed firm that:

- a. The report should be sent, along with an appropriate response, by the reviewed firm to the administering entity within thirty days of the date it receives the report.
- b. The letter of response should be addressed to the quality review committee of the administering entity and should describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report, including departures from professional standards that are not deemed to be significant. (See Exhibit 10 for a sample response.)
- c. The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.

**.33** Within thirty days of the completion of the off-site review, the reviewer should also submit a copy of the report, the review completion form, the working papers, and the engagement statistics data sheet on the review to the entity administering the review by an insured carrier. Exhibit 11 includes a list of the documents that should be included in the submitted working papers. Copies of the financial statements that were reviewed should not be included in the working papers; they should either be destroyed or returned to the reviewed firm.

## Exhibit 1

## OFF-SITE QUALITY REVIEW ENGAGEMENT SUMMARY FORM \*\*\*

Industry of the Client <sup>2</sup>	Level of Service Provided <sup>3</sup>	Number of Engagements Performed <sup>4</sup>		
		Owner 1	Owner 2	Owner 3
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____
_____	A	_____	_____	_____
	R	_____	_____	_____
	C	_____	_____	_____
	CO	_____	_____	_____
	CP	_____	_____	_____

Signature \_\_\_\_\_

Date \_\_\_\_\_

Title \_\_\_\_\_

\*\*\* Please refer to par. .07 on page 7202 for instructions in completing this form.

<sup>2</sup> Please use the industry codes on page 7208.<sup>3</sup> Please use the service codes on page 7208.<sup>4</sup> Each monthly compilation engagement counts as one engagement.

## Level of Service Codes

Please use the following codes to reflect the level of service provided:

- A Agreed-upon procedure engagement
- R Review of historical or personal financial statements
- C Compilation of historical or personal financial statements with disclosures
- CO Compilation of historical or personal financial statements that omits substantially all disclosures
- CP Compilation of prospective financial information

## Industry Codes

- |   |   |
|---|---|
| 105 Advertising                                 | 235 Leasing Companies   |
| 110 Agricultural, Livestock, Forestry & Fishing | 240 Life Insurance Companies  |
| 115 Airlines                                    | 245 Manufacturing   |
| 120 Auto Dealerships                            | 250 Mortgage Banking  |
| 125 Banking                                     | 255 Motor Carriers  |
| 130 Broadcasting and Entertainment              | 260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations) |
| 135 Brokers and Dealers in Securities           | 265 Pension Plans (including ERISA audits)  |
| 140 Brokers and Dealers in Commodities          | 268 Personal Financial Statements   |
| 145 Casinos                                     | 270 Professional Services (Doctors, Lawyers, Architects, etc.)                          |
| 150 Colleges and Universities                   | 275 Publishing  |
| 155 Common Interest Realty Associations         | 280 Real Estate Brokerage   |
| 160 Computer Software Development and Sales     | 285 Real Estate Development   |
| 165 Construction Contractors                    | 290 Real Estate Management  |
| 170 Continuing Care Retirement Communities      | 295 Real Estate Investment Trusts   |
| 175 Credit Unions                               | 300 Reinsurance Companies   |
| 180 Extractive Industries—Oil and Gas           | 305 Retail Trade  |
| 185 Extractive Industries—Mining                | 310 Savings and Loan Associations   |
| 190 Finance Companies                           | 315 Small Loan Companies  |
| 195 Franchisors                                 | 320 School Districts  |
| 200 Fire and Casualty Insurance Companies       | 325 State and Local Government  |
| 205 Government Contractors                      | 330 Telephone Companies   |
| 210 Health Maintenance Organizations            | 335 Utilities   |
| 215 Hospitals and Nursing Homes                 | 340 Wholesale Distributors  |
| 220 Hotels and Restaurants                      | 999 Other (describe)  |
| 222 HUD   |   |
| 225 Insurance Agents and Brokers                |   |
| 230 Investment Companies and Mutual Funds       |   |

## Exhibit 2

## APPLICATIONS OF THE OFF-SITE QUALITY REVIEW ENGAGEMENT SELECTION GUIDELINES

## Guidelines

The *Standards for Performing and Reporting on Quality Reviews* require a review to:

- Category 1—Reviews and Full Disclosure Compilations: Select one review engagement or one compilation engagement involving a report on a complete set of financial statements for each partner, proprietor, or shareholder responsible for the issuance of such reports. However, a minimum of two engagements with disclosures must be selected from this category.
- Category 2—Compilations That Omit Disclosures: Select one set of financial statements that omit substantially all disclosures required under generally accepted accounting principles or another comprehensive basis of accounting. However, two engagements of this type must be selected if the firm issues no reports with full disclosures.

**Example 1**

**FACTS:** A sole practitioner performs three review engagements, two full disclosure compilations and forty compilations that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Three engagements should be selected for review: one review engagement; one full disclosure compilation engagement; and one compilation engagement that omits substantially all disclosures. One review engagement and one full disclosure compilation engagement should be selected because the firm performs both types of engagements and there must be a minimum of two from Category 1. Only one compilation engagement that omits substantially all disclosures should be selected because the firm performs full disclosure engagements.

**Example 2**

**FACTS:** A sole practitioner performs one full disclosure compilation and fifteen compilations that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Two engagements should be selected for review: one full disclosure compilation engagement and one compilation engagement that omits substantially all disclosures. The one full disclosure compilation engagement should be selected because the firm performs this type of engagement. Only one compilation engagement that omits substantially all disclosures should be selected because the firm performs at least one full disclosure engagement.

**Example 3**

**FACTS:** A sole practitioner performs five compilations that omit substantially all disclosures. The sole practitioner performs no review or full disclosure compilation engagements.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Two compilation engagements that omit substantially all disclosures should be selected for review since the firm performs no review or compilation engagements with full disclosures.

## Exhibit 2

(Continued)

**Example 4**

**FACTS:** The firm has three partners and performs three review engagements, three full disclosure compilation engagements, and forty compilations that omit substantially all disclosures.

- Partner No. 1 is responsible for two review engagements, one full disclosure compilation engagement, and twenty compilations that omit substantially all disclosures.
- Partner No. 2 is responsible for one full disclosure compilation engagement and thirteen compilations that omit substantially all disclosures.
- Partner No. 3 is responsible for one review engagement, one full disclosure compilation engagement and seven compilations that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Four engagements should be selected for review as follows:

- Three full disclosure engagements, one for each partner, since each of the three partners have responsibility for issuing reports on full disclosure engagements. These three engagements should include at least one review engagement and one compilation engagement with full disclosure since the firm provides both levels of service.
- One compilation engagement that omits substantially all disclosures.
- In making the engagement selections, attempt to cover different industries to the extent possible.

**Example 5**

**FACTS:** The firm has three partners and performs only thirty compilations that omit substantially all disclosures.

- Partner No. 1 is responsible for eight compilations that omit substantially all disclosures.
- Partner No. 2 is responsible for fifteen compilations that omit substantially all disclosures.
- Partner No. 3 is responsible for seven compilations that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Two compilation engagements that omit substantially all disclosures should be selected for review since the firm performs no review or compilation engagements with full disclosure. The two engagements selected should be performed by a different partner.



## Exhibit 3

**COMPLETING THE OFF-SITE QUALITY REVIEW ENGAGEMENT STATISTICS DATA SHEET**

After reviewing the selected engagements and discussing your findings with the reviewed firm, the Engagement Statistics Data Sheet (Section 7500) should be completed. That form should be completed based on the following guidance.

**Section I**

Section I asks for information concerning the number of engagements reviewed and the number of engagements deemed substandard. The term “substandard engagements” cannot be found in any formal accounting, auditing, or practice-monitoring program literature. However, it is used by most parties involved in the administration of the practice-monitoring programs to refer generically to situations in which a firm has not complied in all material respects with professional standards.

An engagement is deemed to be “substandard” when—

- One or more procedures considered necessary at the time of an engagement were omitted.
- Subsequent to the date of an issued report, the firm becomes aware that facts may have existed at that date which might have affected its report had it then been aware of such facts. This includes reporting, disclosure, and measurement errors. (See paragraph .27 for some examples.)

Reference should be made to AR Sections 100.42, 9100.13, and 9100.14 of *AICPA Professional Standards* when “substandard engagements” are encountered on a review. These sections also suggest that the guidance in the following sections be considered in these circumstances:

- AU Section 390 of *AICPA Professional Standards*—Consideration of Omitted Procedures After the Report Date
- AU Section 561 of *AICPA Professional Standards*—Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report

An engagement is not generally called substandard when—

- Minor disclosure deficiencies are omitted and the omissions do not cause the financial statements to be misleading.
- An error has been made in accounting for a transaction and the error is immaterial.
- The accountants’ report does not cover all periods covered by the financial statements.
- The accountants’ report does not cover the supplemental information that was issued along with the financial statements.
- The titles on the financial statements are not consistent with the report issued.

**Section II**

Section II asks the reviewer to describe the reasons why he/she concluded that one or more engagements were substandard. If the reviewer indicates in Section I that three engagements were substandard, then Section II should describe why the three engagements were deemed substandard.

To assist the reviewer in noting why an engagement is substandard, two Reason Codes have been provided:

## Exhibit 3

(Continued)

- GAP should be used to indicate that the financial statements and/or footnotes are not in accordance with generally accepted accounting principles.
- SAR should be used to indicate that the report was not in accordance with the *Standards for Accounting and Review Services*.

After entering the Reason Code, the reviewer should provide a brief description of the deficiency noted.

Some examples of comments that might be written when a GAP Reason Code is noted are:

- No footnotes on the review engagements.
- No footnotes on the compilation engagement and the report is not appropriately modified.
- One or more significant footnotes omitted. Also, indicate the nature of the footnote (i.e., leases, related parties, pensions, accruals, etc.).
- A statement of changes in financial position has been issued rather than a statement of cash flows.

Some examples of comments that might be written when a SAR Reason Code is noted are:

- No compilation report issued.
- The compilation report does not indicate that substantially all disclosures have been omitted.
- The compilation report does not indicate that a statement of cash flows has been omitted.
- A standard report on financial statements prepared under generally accepted accounting principles was issued rather than a report indicating that the financial statements have been prepared under another comprehensive basis of accounting.

**Section III**

Section III asks the reviewer to indicate the actions that the reviewed firm has taken or plans to take with respect to each substandard engagement. If the reviewer indicates in Sections I and II that three engagements were substandard, then Section III should include a description of the actions taken or to be taken on each of three substandard engagements.

To assist the reviewer in noting the actions taken or to be taken by the reviewed firm and to reduce the amount of writing, six Action Codes are set forth on the data sheet. A comment field has been provided in the event that the reviewer wishes to provide additional information or to describe an Action which is not covered by the six Action Codes provided. If a reviewer can use one of the six Action Codes provided and has no other comments, the Comments section does not have to be completed.

Under the professional standards cited under the explanation of Section I, the major factor to be considered when evaluating what actions should be taken on substandard engagements is whether or not there are persons currently relying or likely to rely on the report and financial statements that have been issued. When persons are currently relying or likely to rely on the report and financial statements that have been issued, professional standards suggest that—

- The firm promptly undertake to apply the omitted procedure or alternative procedures that would provide a satisfactory basis for its report.

**Exhibit 3****(Continued)**

- The firm should issue a revised report and financial statements as soon as practicable; ordinarily, the reason for the revision should be described in a note to the financial statements and referred to in the report.

If the issuance of financial statements of the subsequent period is imminent, so that disclosure of the information is not delayed, appropriate disclosure of the revision can be made in such statements instead of reissuing the earlier statements. Before any action is taken on the part of the reviewed firm with respect to substandard engagements, the professional standards suggest that an attorney be consulted.

***Section IV***

Section IV asks for a list of any engagement(s) that the reviewed firm asked the reviewer not to review and the reasons why the reviewed firm made such a request. On an off-site quality review, such requests will be rare.

## Exhibit 4

**UNMODIFIED OFF-SITE QUALITY REVIEW REPORT ON A FIRM THAT  
PERFORMS COMPILATIONS AND REVIEWS**

< See Paragraph .21 for Information on  
Letterhead and Appropriate Signature >

October 7, 1992

To the Partners  
LMN & Company

We have performed an off-site quality review with respect to the accounting practice of LMN & Company for the year ended July 31, 1992, in accordance with standards established by the American Institute of Certified Public Accountants. LMN & Company has represented to us that it performed no audits of historical or prospective financial statements during the year ended July 31, 1992.

An off-site quality review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site quality review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site quality review, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by LMN & Company and issued in the conduct of its accounting practice during the year ended July 31, 1992, did not conform with the requirements of professional standards in all material respects.

---

Carole Singer  
Reviewer

or

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Singer & Company

**Key Points:**

- This is the standard unmodified report on an off-site quality review for firms with both compilation and review engagements.
- The individual performing the review is referred to as the "reviewer" and *not* the "review team captain."

## Exhibit 5

**UNMODIFIED OFF-SITE QUALITY REVIEW REPORT  
ON A FIRM THAT PERFORMS COMPILATIONS ONLY**

< See Paragraph .21 for Information on  
Letterhead and Appropriate Signature >

October 7, 1992

To the Partners  
DBR & Company

We have performed an off-site quality review with respect to the accounting practice of DBR & Company for the year ended July 31, 1992, in accordance with standards established by the American Institute of Certified Public Accountants. DBR & Company has represented to us that it performed no audits or reviews of historical or prospective financial statements during the year ended July 31, 1992.

An off-site quality review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site quality review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site quality review, nothing came to our attention that caused us to believe that the compilation reports submitted for review by DBR & Company and issued in the conduct of its accounting practice during the year ended July 31, 1992, did not conform with the requirements of professional standards in all material respects.

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Robert W. White  
Reviewer

or

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White & Company

**Key Points:**

- This is the standard unmodified report on an off-site quality review for firms that perform compilation engagements only.
- The first paragraph has been tailored to indicate that the firm performs no "audits or reviews."
- The second paragraph has not been tailored since the description of all off-site quality reviews should be consistent with the quality review standards.
- The opinion paragraph has been tailored to focus on compilation reports since no review reports were submitted.
- If a firm performs review engagements but no compilation engagements, the off-site quality review report should be tailored in a manner similar to this report.

## Exhibit 6

**OFF-SITE QUALITY REVIEW REPORT NOTING  
DEPARTURES FROM PROFESSIONAL STANDARDS  
THAT ARE NOT SIGNIFICANT**

< See Paragraph .21 for Information on  
Letterhead and Appropriate Signature >

November 3, 1992

To the Partners  
XYZ Company

We have performed an off-site quality review with respect to the accounting practice of XYZ for the year ended July 31, 1992, in accordance with standards established by the American Institute of Certified Public Accountants. XYZ has represented to us that it performed no audits of historical or prospective financial statements during the year ended July 31, 1992.

An off-site quality review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting and whether the accountant's report appears to conform with the requirements of professional standards. An off-site quality review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

Our review identified disclosure deficiencies in the financial statements on several of the engagements submitted for review. Also, on one engagement, the firm's review report did not indicate the degree of responsibility being taken for supplementary information accompanying the basic financial statements, as required by professional standards. However, none of these matters were considered to be significant departures from professional standards.

In connection with our off-site quality review, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by XYZ Company and issued in the conduct of its accounting practice during the year ended July 31, 1992 did not conform with the requirements of professional standards in all material respects.

---

Victoria Carson  
Reviewer

or

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Carson & Company

**Key Points:**

- This is a report on an off-site quality review that describes departures from professional standards that are not significant enough to cause the reviewer to modify her conclusion.
- The third paragraph of the report describes the deficiencies noted on the engagements reviewed. Since no significant departures from professional standards were noted, the fourth paragraph is not qualified; that is, it does not include an "except for" clause.
- The firm has both compilation and review engagements. The report should not refer to review engagements if the firm only performs compilations.

## Exhibit 7

**OFF-SITE QUALITY REVIEW REPORT QUALIFIED FOR SIGNIFICANT DEPARTURES FROM PROFESSIONAL STANDARDS**

<See Paragraph .21 for Information on Letterhead and Appropriate Signature>

October 7, 1992

To the Partners  
ABC & Company

We have performed an off-site quality review with respect to the accounting practice of ABC & Company for the year ended July 31, 1992, in accordance with standards established by the American Institute of Certified Public Accountants. ABC & Company has represented to us that it performed no audits of historical or prospective financial statements during the year ended July 31, 1992.

An off-site quality review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site quality review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site quality review, with the exception of the matters described in the following paragraph, nothing came to our attention that caused us to believe that the compilation and review reports submitted for review by ABC & Company and issued in the conduct of its accounting practice during the year ended July 31, 1992 did not conform with the requirements of professional standards in all material respects.

The firm's review report on the financial statements of one of the engagements submitted for review did not disclose a significant related party transaction, as required by generally accepted accounting principles. Also, financial statement disclosure deficiencies related to the components of income tax expense and leasing agreements were noted in several of the engagements reviewed.

---

John Brick  
Reviewer

or

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Brick & Company

**Key Points:**

- This is a report on an off-site review qualified for significant departures from professional standards.
- The opinion of the reviewer is included in the third paragraph of the report. The qualification is indicated by the inclusion of the phrase "with the exception of the matters described in the following paragraph."
- The reason for the qualified report is explained in the final paragraph of the report.
- The firm has both compilation and review engagements. The report should not refer to review engagements if the firm only performs compilations.

## Exhibit 8

**OFF-SITE QUALITY REVIEW REPORT QUALIFIED FOR SIGNIFICANT DEPARTURES FROM PROFESSIONAL STANDARDS AND MODIFIED FOR OTHER DEPARTURES**

<See Paragraph .21 for Information on Letterhead and Appropriate Signature>

November 18, 1992

To the Partners  
CSA & Company

We have performed an off-site quality review with respect to the accounting practice of CSA & Company for the year ended July 31, 1992, in accordance with standards established by the American Institute of Certified Public Accountants. CSA & Company has represented to us that it performed no audits or reviews of historical or prospective financial statements during the year ended July 31, 1992.

An off-site quality review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site quality review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

In connection with our off-site quality review, with the exception of the matters described in the next paragraph, which we consider to be significant departures from professional standards, nothing came to our attention that caused us to believe that the compilation reports submitted for review by CSA & Company and issued in the conduct of its accounting practice during the year ended July 31, 1992, did not conform with the requirements of professional standards in all material respects.

The firm's compilation report on the financial statements of one of the engagements submitted for review did not disclose the client's failure to capitalize a financing lease, as required by generally accepted accounting principles. Also, financial statement disclosure deficiencies related to the components of income tax expense and related party transactions were noted in several of the engagements reviewed.

Our review also identified other disclosure deficiencies in the financial statements on the engagements submitted for review. On one engagement, the firm's compilation report did not indicate the degree of responsibility being taken for supplementary information accompanying the basic financial statements, as required by professional standards. However, these matters were not considered to be significant departures from professional standards.

---

Peter X. Wright  
Reviewer

or

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Wright & Company

\* \* \* \* \*

**Key Points:**

- This is a report qualified for significant departures from professional standards and modified for other departures that are not deemed to be significant (other departures) but should be considered by the reviewed firm in evaluating its quality control policies and procedures.
- The opinion of the reviewer is included in the third paragraph of the report. The modification is indicated by the inclusion of the phrase "with the exception of the matters described in the following paragraph." The opinion paragraph does not make reference to the "other departures from professional standards."
- The reason for the modified report is explained in the fourth paragraph of the report.
- The other departures from professional standards are explained in the fifth paragraph.



## Exhibit 9

## ADVERSE OFF-SITE QUALITY REVIEW REPORT

<See Paragraph .21 for Information on Letterhead and Appropriate Signature>

October 7, 1992

To the Partners  
RRS & Associates

We have performed an off-site review with respect to the accounting practice of RRS & Associates for the year ended July 31, 1992, in accordance with standards established by the American Institute of Certified Public Accountants. RRS & Associates has represented to us that it performed no audits of historical or prospective financial statements during the year ended July 31, 1992.

An off-site quality review consists only of reading selected financial statements and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting and whether the accountant's report appears to conform with the requirements of professional standards. An off-site quality review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

Our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles and in complying with standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to comply with generally accepted accounting principles in accounting for leases, in accounting for revenues from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements.

Because of the significance of the matters described in the preceding paragraph, in our opinion, RRS & Associates did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year ended July 31, 1992.

---

Adam West  
Reviewer

or

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West & Company

**Key Points:**

- This is an adverse report on an off-site quality review.
- The third paragraph explains the nature of the deficiencies noted on the review and emphasizes that the disclosure deficiencies concerned "matters important to the understanding of the statements" reviewed.
- The fourth paragraph includes the reviewer's opinion that the firm "did not have reasonable assurance of conforming with professional standards during the period reviewed."
- The firm has both compilation and review engagements. The report should not refer to review engagements if the firm only performs compilations.

## Exhibit 10

**ILLUSTRATION OF RESPONSE BY A REVIEWED FIRM TO  
A QUALIFIED OFF-SITE QUALITY REVIEW REPORT**

The purpose of a letter of response to a qualified report on an off-site quality review is to describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report, including departures from professional standards that are not deemed to be significant. If the reviewed firm disagrees with one or more of the findings in the report, its response should describe the reasons for such disagreement. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review.

\* \* \* \*

September 15, 19XX

[Addressed to the Entity Administering the Review, which may be the AICPA Quality Review Division or a participating State Society of CPAs]

This letter represents (our) (my) response to the report on the off-site quality review of (our firm's) (my) accounting practice for the year ended June 30, 19XX. That report commented on the failure to capitalize a financing lease in financial statements (we) (I) had reviewed and noted that there were financial statement disclosure deficiencies in several of the engagements reviewed.

(The firm has) (I have) recalled all copies of the review report on the financial statements that did not reflect the capitalization of a financing lease in accordance with generally accepted accounting principles, and corrected financial statements are being prepared.

To prevent the recurrence of this situation, as well as to prevent the other disclosure deficiencies referred to in the report on the off-site quality review, (we) (I) have obtained copies of the AICPA's reporting and disclosure checklists. These checklists will be completed on all review engagements and on selected compilation engagements.

In addition, (our) (my) staff have been advised of the importance of consultation within the firm when they encounter unfamiliar situations and have been encouraged to use the AICPA Technical Information Hotline in those circumstances.

(We) (I) believe these actions are responsive to the findings of the review.

Sincerely,

[Name of Firm]

## Exhibit 11

**DOCUMENTS TO BE SUBMITTED TO THE ADMINISTERING ENTITY BY  
INDIVIDUALS PERFORMING OFF-SITE QUALITY REVIEWS**

The following is a list of the documents that should be submitted by the reviewer to the administering entity:

	<u>Page(s)</u>
1. Report	—
2. Off-Site Quality Review Engagement Summary Form	7207
3. One Engagement Questionnaire for Each Selected Engagement	7106-7109
4. Reviewer's Checklist	7223-7225
5. Off-Site Quality Review Completion Form	7226
6. One Reviewer's Engagement Checklist for Each Full Disclosure Engagement Selected for Review	7303-7313
7. One Reviewer's Engagement Checklist for Each Compilation Engagement Selected for Review That Omits Substantially All Disclosures	7315-7321
8. Matters for Further Consideration Forms	7402
9. Engagement Statistics Data Sheet	7502

## Appendix A

## REVIEWER'S CHECKLIST—OFF-SITE QUALITY REVIEWS

This checklist must be completed on all off-site quality reviews of firms enrolled in the AICPA Quality Review Program.

Off-site quality reviews are administered by state CPA societies participating in the program or, when the relevant state CPA society has elected not to participate, by the AICPA Quality Review Division. Hereafter, those entities are referred to collectively as the *administering entity*.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

Initial      Date

1. If the firm was previously reviewed, read the report on the prior review and the firm's response thereto and make note of deficiencies discussed in the report, all of which should be emphasized in the current review:

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2. Determine that the reviewed firm has submitted engagements for review in accordance with instructions previously provided to it by the administering entity or by you as the reviewer and indicate the number of engagements selected. ☐☐

3. Perform the procedures outlined in the "Reviewer's Engagement Checklist for Off-Site Quality Reviews." Make any oral inquiries deemed necessary to consider whether the financial statements and accountant's reports submitted by the reviewed firm appear to conform with the requirements of professional standards. Requests for working papers should not be necessary. An off-site quality review does not include a review of the working papers prepared on the compilation and review engagements submitted for review. (See the *Standards* for guidance on the objective of and basic requirements for an off-site quality review.)

4. During the review discuss and make note of—

- (i) the number of owners. ☐☐
- (ii) the number of owners with responsibility for issuing reports on a complete set of financial statements. ☐☐
- (iii) whether you found it necessary to increase the scope of the review beyond the minimum required under the *Standards* and, if so, describe the extent and reasons for the increase. (Ordinarily, the scope of the review should not be expanded beyond the minimum unless authorized by the administering entity.)

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	<u>Initial</u>	<u>Date</u>
5. Prepare a matter for consideration form (MFC) to document all significant matters that require additional information or explanation of facts from the reviewed firm.	_____	_____
6. Obtain the firm's response to all significant deficiencies by telephone or in writing on a "Matter for Further Consideration" form.	_____	_____
7. Consult with the administering entity (a) whenever the reviewer and the reviewed firm have a disagreement on a significant matter, including the type of report to be issued, whether action should be taken to prevent future reliance on a previously issued report, and whether a report issued by the firm was not in conformity with professional standards, and (b) whenever the firm does not respond promptly to oral or written inquiries, which may constitute a failure to cooperate.	_____	_____
8. At the conclusion of the review: review all matters, including the firm's response, on MFC forms, and document your reasons for including or not including such matters in the report on the review.	_____	_____
9. If the report to be issued is other than unmodified, communicate that fact to the appropriate individual in the reviewed firm. As previously noted, consult with the administering entity if there is an unresolved disagreement with the firm as to the report to be issued or the findings on the review.	_____	_____
10. Describe below the nature and extent of each matter discussed with the owner(s) of the firm that was not deemed of sufficient significance to include in the report. _____		
_____		
_____		
_____		
_____		
_____		
_____		
_____		
11. Prepare a report on the review following the guidance in the <i>Standards</i> , and—		
a. Submit the original of the report to the reviewed firm within thirty days of the date of the completion of the off-site quality review. Ordinarily, those off-site review procedures should be completed within thirty days of the date the reviewer receives the materials to be reviewed.	_____	_____
b. Submit a copy of the report, the review completion form (see Appendix A), the engagement statistics data sheet (see QRP section 7500), and the working papers on the review to the administering entity by an insured carrier.	_____	_____
c. Remind the firm that:		
(i) The report should be sent along with an appropriate response by the reviewed firm to the administering entity within thirty days of the date it receives the report.	_____	_____
(ii) The letter of response should be addressed to the quality review committee of the administering entity and should describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report, including departures from professional standards that are not deemed to be significant.	_____	_____

- |   | <u>Initial</u> | <u>Date</u> |
|---|----------------|-------------|
| (iii) The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity. | _____          | _____       |
| 12. For reviews conducted by committee-appointed reviewers, submit your bill to the administering entity. Make sure the bill includes the Federal employer identification number for Form 1099 purposes, when applicable.               | _____          | _____       |
| 13. After the report on the review has been accepted, return the financial statements to the firm or shred the financial statements received.   | _____          | _____       |

## Appendix B

## OFF-SITE QUALITY REVIEW COMPLETION FORM

Date: \_\_\_\_\_

To: \_\_\_\_\_

From: \_\_\_\_\_  
(Name of the Reviewer)Re: Review of \_\_\_\_\_  
Firm Number \_\_\_\_\_ Review Number \_\_\_\_\_

1. On what date was the off-site quality review completed? \_\_\_\_\_
2. When was the report mailed to the reviewed firm? \_\_\_\_\_
3. What was the general nature of the report? \* \_\_\_\_\_
4. Where will the working papers be shipped? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. When will the working papers be shipped to the entity noted in 4 above? \_\_\_\_\_

\* \* \* \* \*

Reviewer's Signature \_\_\_\_\_

Date: \_\_\_\_\_  
\_\_\_\_\_

[The next page is 7301.]

\* Please use the following codes:

1. Unqualified—No comments
2. Modified—Report Comments only on "Other Departures"
3. Modified—Report comments on "Significant Departures" and has an "Except for" opinion
7. Adverse

## **QRP Section 7300**

### ***Reviewer's Engagement Checklists—Off-Site Quality Reviews***

**.01** This section of the manual contains a reviewer's engagement checklist for off-site quality reviews. This section also contains a checklist for compilations that omit substantially all disclosures. A checklist should be completed for each engagement reviewed.

**.02** The objective of an off-site quality review is to provide the reviewer with a reasonable basis for expressing limited assurance that the compilation and review engagements submitted for review do not depart in a material respect from the requirements of professional standards.

**.03** An off-site quality review consists *only* of reading the accountant's compilation or review report and the related historical or prospective financial statements submitted by the firm, together with certain background information and representations provided by the reviewed firm.

**.04** The objective of the review of these engagements is to consider whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with professional standards.

**.05** An off-site quality review does *not* include a review of the working papers prepared on the selected compilation or review engagements, tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in an on-site quality review.



## AICPA Quality Review Program

## OFF-SITE QUALITY REVIEWS—GENERAL

Engagement Code No. \_\_\_\_\_ Reviewer \_\_\_\_\_ Date \_\_\_\_\_

N/A*	YES	NO	REF.**
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**A. Accountant's Report**

1. Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15 and .33)
2. Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.14-.18 and .39-.41 or under early application of the Omnibus Statement on Standards for Accounting and Review Services)
3. Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)
4. If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and 91.00.41-.45)
5. If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)
6. Does each page of financial statements that have been compiled or reviewed include a reference to the accountant's report? (AR Sec. 100.16 and .34)

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

**B. Financial Statements and Footnotes****General**

1. Are the financial statements suitably titled? (AU Sec. 623.07 and .24)
2. Do the financial statements appear to be free from material error? (AR Sec. 100.13)
3. Is the presentation appropriate and disclosure adequate regarding:
  - a) Significant accounting policies? (AC Sec. A10.105-.108)
  - b) Accounting changes? (AC Sec. A06)
  - c) Comparative financial statements? (AC Sec. F43)
  - d) Business combinations? (AC Sec. B50)
4. Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.

	N/A*	YES	NO	REF.**
5. If an individual or entity controls a group of related entities, did the accountant consider the need for combined statements? (AC Sec. C51.121)	_____	_____	_____	_____
6. Is information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk disclosed? (AC Sec. F25.112)	_____	_____	_____	_____
7. Is information about the fair value of financial instruments and the methods and significant assumptions used to estimate the fair value of the financial instruments disclosed? (AC Sec. F25.112)	_____	_____	_____	_____
8. Are required disclosures made concerning related party transactions? (AC Sec. R36)	_____	_____	_____	_____
9. Are required disclosures made regarding significant dependence on one or more major customers or suppliers? (AC Sec. S20.101-.103, .127 and .145)	_____	_____	_____	_____
10. Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed? (AC Sec. F60)	_____	_____	_____	_____
11. Are foreign operations and export sales adequately disclosed? (AC Sec. F65)	_____	_____	_____	_____
12. Are nonmonetary transactions accounted for and disclosed? (AC Secs. N35 and C11)	_____	_____	_____	_____
13. With respect to contingencies and commitments—				
a) Are loss contingencies disclosed and/or accrued? (AC Sec. C59.104-.114)	_____	_____	_____	_____
b) Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)	_____	_____	_____	_____
14. Are the financial statements, where appropriate, adjusted for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Sec. C59.105 and .112 and AU Secs. 560.03-.09 and 561)	_____	_____	_____	_____
15. Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern? (AU Sec. 341.10-.11)	_____	_____	_____	_____
16. Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)	_____	_____	_____	_____
17. Are all other pension plans adequately disclosed? (AC Sec. P16)	_____	_____	_____	_____
18. Is the required information on defined benefit post-retirement plans adequately disclosed? (AC Sec. P40.169)	_____	_____	_____	_____
19. Are postretirement health care and life insurance benefits under FAS No. 81 and FASB Technical Bulletin 87-1 properly disclosed? (AC Sec. P50.102-.103)	_____	_____	_____	_____
20. If the entity is or has been a "development stage enterprise," are adequate disclosures made? (AC Sec. De4.105-.109)	_____	_____	_____	_____
21. Do the financial statements, where required, include appropriate disclosures of futures contracts? (AC Sec. F80)	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>Balance Sheet</b>				
22. Is the presentation appropriate and disclosure adequate regarding:				
a) Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B0 5)	_____	_____	_____	_____
b) Valuation allowances? (AC Sec. V18)	_____	_____	_____	_____
c) Restricted cash, including compensating balances? (AC Secs. B0 5.107 and C59.120)	_____	_____	_____	_____
d) Marketable equity securities? (AC Sec. I 89)	_____	_____	_____	_____
e) Other marketable securities? (AC Sec. I 89.103)	_____	_____	_____	_____
f) Accounts and Notes Receivable—				
(i) Unbilled receivables? (AC Sec. Co 5.108)	_____	_____	_____	_____
(ii) Loans and related origination fees? (AC Sec. L20.104-.106 and .120)	_____	_____	_____	_____
(iii) Effect interest rates which do not reflect market rates? (AC Sec. I 69.109)	_____	_____	_____	_____
(iv) Receivables related to troubled debt restructurings? (AC Sec. D22.136-.137 and .501-.505)	_____	_____	_____	_____
(v) Other receivables?	_____	_____	_____	_____
g) Inventories? (AC Secs. B0 5.105 and I 78)	_____	_____	_____	_____
h) Investments? (AC Secs. I 82.109-.110 and I 89.101-.107)	_____	_____	_____	_____
i) Property and equipment, including accounting for assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I 13.108, I 67 and I 32)	_____	_____	_____	_____
j) Sales-type, direct financing, and operating leases of lessors? (AC Sec. 10.119 and .143-.149)	_____	_____	_____	_____
k) Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges? (AC Secs. I 60, Co 2.106-.110, and FAS No. 109.43-.44)	_____	_____	_____	_____
l) Pledged assets? (AC Sec. C59.120)	_____	_____	_____	_____
m) Related assets and liabilities offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount due from the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?	_____	_____	_____	_____
n) Current liabilities? (AC Sec. B0 5.108-.109 and .118)	_____	_____	_____	_____
o) Short-term liabilities expected to be refinanced? (AC Sec. B0 5.117 and .138-.139)	_____	_____	_____	_____
p) Notes payable and other debt—				
(i) Maturities and rates? (AC Sec. C32.105)	_____	_____	_____	_____
(ii) Other terms and covenants? (AC Sec. C59.120)	_____	_____	_____	_____
(iii) Effect of interest rates which do not reflect market rates? (AC Sec. I 69)	_____	_____	_____	_____
(iv) Effect of troubled debt restructurings? (AC Sec. D22.121)	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.

	N/A*	YES	NO	REF.**
(v) Effect of early extinguishment of debt? (AC Sec. D14 and I 17.104)	_____	_____	_____	_____
(vi) Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)	_____	_____	_____	_____
q) Capital leases of lessees? (AC Sec. L10.106 and .112)	_____	_____	_____	_____
r) Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, and special termination benefits to employees and deferred revenue? (AC Secs. I 24, I 25 and C44.104 and FAS No. 109.43 and .44)	_____	_____	_____	_____
s) Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?	_____	_____	_____	_____
t) Stock option and stock purchase plans? (AC Sec. C47)	_____	_____	_____	_____
u) Stock subscriptions receivable? (EITF 85-1)	_____	_____	_____	_____
v) Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. R70.103 and C59.120)	_____	_____	_____	_____
w) Changes in stockholders' equity? (AC Secs. C0 8.112 and A35.103, .105 and .107)	_____	_____	_____	_____
x) Redemption requirements on capital stock for the next five years? (AC C32.105)	_____	_____	_____	_____
y) Financial instruments with off-balance sheet risk or concentrations of credit risk? (AC Sec. F25.112)	_____	_____	_____	_____
<b>Income Statement</b>				
23. Are the important components of the income statement separately disclosed?	_____	_____	_____	_____
24. Is the presentation appropriate and disclosure adequate regarding:				
a) Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions? (AC Secs. R10 and Co4.110 and .112)	_____	_____	_____	_____
b) Gains and losses, realized and unrealized, from marketable equity securities? (AC Sec. I 89.106 and .110)	_____	_____	_____	_____
c) Income and income taxes on investments in securities accounted for on the equity method? (AC Sec. I 82.109)	_____	_____	_____	_____
d) Research and development costs? (AC Sec. R50)	_____	_____	_____	_____
e) Computer software costs? (AC Sec. Co2.110-.111)	_____	_____	_____	_____
f) Interest costs? (AC Sec. I 67.118)	_____	_____	_____	_____
g) Discount or premium on notes receivable or payable? (AC Sec. I 69.108-.109)	_____	_____	_____	_____
h) Depreciation? (AC Sec. D40.105)	_____	_____	_____	_____
i) Compensatory stock issuance plan? (AC Sec. C47)	_____	_____	_____	_____
j) Deferred compensation agreements? (AC Sec. C38)	_____	_____	_____	_____
k) Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.

	N/A*	YES	NO	REF.**
l) Product financing arrangements? (AC Sec. D18.106-.107)				
m) Income taxes, computed under the early application of AC Sec. I 25 (FASB No. 109), to include:				
(i) The types of temporary differences that cause significant portions of a deferred tax liability or asset? (FAS No. 109.10-.15)				
(ii) Significant components of income tax expense, including the current tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (FAS No. 109.45)				
(iii) Reconciliation of income tax expense or benefit attributable to continuing operations to the amount of expense or benefit that would result from applying the federal statutory rates to pretax income or loss from continuing operations? (FAS No. 109.46)				
(iv) Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes? (FAS No. 109.48)				
(v) Other information concerning tax expense, benefits and the effect of income taxes? (FAS No. 109)				
n) Income taxes, computed under APB No. 11, including operating loss carryforwards, investment tax credits, and reasons tax expense differs from the customary relationship between income and taxes? (AC Secs. I 32, I 37 and Appendix E: I 24.102-.104 and .548)				
o) Operating leases and rent expense of lessees? (AC Sec. L10.112)				
p) Discontinued operations? (AC Sec. I 13)				
q) Extraordinary and unusual items? (AC Sec. I 17)				
<b>Statement of Cash Flows</b>				
25. Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)				
26. Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.112)				
27. Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amount of cash and cash equivalent agree with the amounts on the balance sheet? (AC Sec. C25.124)				
28. Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.124)				
29. Are noncash investing and financing activities disclosed? (AC Sec. C25.134)				
30. If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.132)				

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
31. Do components of the financial statements appear to have been shown at "gross" and not "net" value? (AC Sec. C25.109-.111A)	_____	_____	_____	_____
<b>Other</b>				
32. If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide? (AU Sec. 210.04)	_____	_____	_____	_____
<b>Summary</b>				
33. Does it appear that disclosures in the financial statements are reasonably adequate?	_____	_____	_____	_____

---

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.

**EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS**

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

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\* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
------------------------	----------------------------	-----------------------------	------------------------------------



<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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NOTE: Attach additional sheets if required.

**REVIEWER'S CONCLUSIONS**

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS TO QUESTION 1. BE SPECIFIC.

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:

a. The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects?

YES \_\_\_\_\_ NO \_\_\_\_\_

b. The report issued by the firm did not conform with professional standards?

YES \_\_\_\_\_ NO \_\_\_\_\_

EXPLAIN BELOW THE REASONS FOR ANY "NO" ANSWERS TO QUESTION 2.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the off-site quality review or that should be communicated to the reviewed firm as a matter that may require corrective action?

YES \_\_\_\_\_ NO \_\_\_\_\_

## AICPA QUALITY REVIEW PROGRAM

## OFF-SITE QUALITY REVIEWS—COMPILATIONS THAT OMIT SUBSTANTIALLY ALL DISCLOSURES

Engagement Code No.: \_\_\_\_\_ Reviewer: \_\_\_\_\_ Date: \_\_\_\_\_

	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
<b>A. Accountant's Report</b>				
1. Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)	_____	_____	_____	_____
2. Does the report adequately disclose all required matters and does its language conform to that suggested in professional standards including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.14-.18 and .39-.41)	_____	_____	_____	_____
3. Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)	_____	_____	_____	_____
4. If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and 9100.41-.45)	_____	_____	_____	_____
5. If supplemental information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)	_____	_____	_____	_____
6. Does each page of financial statements that have been compiled include a reference to the accountants' report? (AR Sec. 100.16)	_____	_____	_____	_____
<b>B. Financial Statements</b>				
<b>General</b>				
1. Are the financial statements suitably titled? (AU Sec. 623.07 and .24)	_____	_____	_____	_____
2. Do the financial statements appear to be free from material error? (AR Sec. 100.13)	_____	_____	_____	_____
<b>Balance Sheet</b>				
3. Is the presentation appropriate regarding segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)	_____	_____	_____	_____
<b>Income Statement</b>				
4. Are the important components of the income statement separately stated?	_____	_____	_____	_____
5. Is the presentation appropriate regarding:				
(a) Gains and losses, realized and unrealized, from marketable equity securities? (AC Sec. I89.106 and .110)	_____	_____	_____	_____
(b) Income and income taxes on investments in securities accounted for on the equity method? (AC Sec. I82.109)	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material.

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.

	<u>N/A*</u>	<u>YES</u>	<u>NO</u>	<u>REF.**</u>
(c) Income taxes, computed if applicable, or a GAAP departure discussed in the report? (AC Secs. I32, I37 and Appendix E: I24.102-.104 and .548 and FAS No. 109)	_____	_____	_____	_____
(d) Discontinued operations? (AC Sec. I13)	_____	_____	_____	_____
(e) Extraordinary and unusual items? (AC Sec. I17)	_____	_____	_____	_____
<b>Statement of Cash Flows</b>				
6. Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)	_____	_____	_____	_____
7. Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.122)	_____	_____	_____	_____
8. Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with amounts on the balance sheet? (AC Sec. C25.124)	_____	_____	_____	_____
9. Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.126)	_____	_____	_____	_____
10. Do components of the financial statements appear to have been shown at "gross" and not "net" value? (AC Sec. C25.109-111A)	_____	_____	_____	_____
<b>Other</b>				
11. If the industry in which the client is practicing is covered by an audit and accounting guide, are the suggested format and statements consistent with the guide?	_____	_____	_____	_____

\* The N/A column should be used when the item either does not exist or is not material

\*\* All "no" answers must be explained on the pages provided at the end of this checklist.

**EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS**

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
------------------------	----------------------------	-----------------------------	-------------------------------------

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\* The nature of the disposition of comments may vary, such as:

- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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NOTE: Attach additional sheets if required.

**REVIEWER'S CONCLUSIONS**

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS TO QUESTION 1. BE SPECIFIC.

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:

- a. The financial statements did not appear to be appropriate in form and free from obvious material errors in application of accounting principles? YES \_\_\_\_\_ NO \_\_\_\_\_
- b. The report issued by the firm did not conform with professional standards? YES \_\_\_\_\_ NO \_\_\_\_\_

EXPLAIN BELOW THE REASONS FOR ANY "NO" ANSWERS TO QUESTION 2.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the off-site quality review or that should be communicated to the reviewed firm as a matter that may require corrective action? <sup>1</sup>

YES \_\_\_\_\_ NO \_\_\_\_\_

[The next page is 7401.]

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<sup>1</sup> Answer "yes" to this question if no MFCs were deemed necessary.

## **QRP Section 7400**

### ***Instructions for Use of Matter for Further Consideration Forms—Off-Site Quality Reviews***

.01 The reviewer should prepare a matter for further consideration form (MFC) to clearly and concisely document all significant matters that require additional information or explanation of facts from the reviewed firm.

.02 Generally, the reviewer will discuss the matters on MFC forms with the reviewed firm by telephone. Consequently, the reviewer should carefully document the reviewed firm's explanations.

.03 The reviewer may wish to obtain the engagement partner's signature on matters that will be the subject of a modified report.

## AICPA Quality Review Program

## MATTER FOR FURTHER CONSIDERATION—OFF-SITE QUALITY REVIEWS

Engagement

MFC No. \_\_\_\_\_

No. \_\_\_\_\_

Checklist page \_\_\_\_\_

Program step \_\_\_\_\_

## REVIEWER'S DESCRIPTION OF MATTER

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REVIEWED FIRM AGREES WITH THE REVIEWER'S DESCRIPTION? YES \_\_\_\_ NO \_\_\_\_  
 REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

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## REVIEWER'S ADDITIONAL COMMENTS

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INCLUDED IN REPORT? YES \_\_\_\_ NO \_\_\_\_

If "No," explain:

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SignaturesDates

Reviewer \_\_\_\_\_

\_\_\_\_\_

Engagement Partner \_\_\_\_\_

\_\_\_\_\_

[The next page is 7501.]

## **QRP Section 7500**

### ***Engagement Statistics Data Sheet—Off-Site Quality Reviews***

.01 The reviewer should prepare an off-site engagement statistics data sheet for the reviewed firm.

## OFF-SITE ENGAGEMENT STATISTICS DATA SHEET

(To Be Completed On All Reviews)

## I. Engagement Statistics

<i>Type of Engagement</i>	<i>Total No. Reviewed</i>	<i>Total No. Substandard</i>
Reviews	_____	_____
Compilations	_____	_____
Other Accounting Services	_____	_____
Total	=====	=====

## REASON CODES

Substandard Engagement Reason Codes  
 GAP Non-GAAP  
 SAR Non-SSARS

## ACTION CODES

Substandard Engagement Action Codes  
 1. Report and/or financial statements recalled, revised and reissued  
 2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent)  
 3. Omitted procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent)  
 4. Cause of independence impairment eliminated  
 5. Unable to apply omitted procedures  
 6. Notified parties that no reliance should be placed on the report issued

## II. Reasons for Substandard Engagements

<i>Type of Engagement Reviewed</i>	<i>Reason Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

## III. Actions To Be Taken on Substandard Engagements

<i>Type of Engagement Reviewed</i>	<i>Action Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

## IV. Engagements Excluded from Review

<i>Type of Engagement Reviewed</i>	<i>Reason Code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____

## EXCLUDED ENGAGEMENT REASON CODES

1. Subject of litigation
2. Subject of investigation by government agency
3. Client imposed restrictions
4. Other

QRP Section 8000

**GUIDELINES FOR INVOLVEMENT BY  
ASSOCIATIONS OF CPA FIRMS IN THE QUALITY  
REVIEW PROGRAM**

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[The next page is 8021.]

# QRP Section 8000

## *Guidelines for Involvement by Associations of CPA Firms in the Quality Review Program*

### General

.01 An association of CPA firms may assist its members in arranging and carrying out on-site quality reviews under the AICPA Quality Review Program provided it receives the approval of the AICPA Quality Review Executive Committee. An association of CPA firms may not arrange off-site quality reviews.

.02 Reviews arranged by an association of CPA firms may be conducted by a team appointed by the association (an "association review") or by a reviewing firm that is a member of the same association as the reviewed firm (a "firm review").

.03 A majority of the review team members on an association review, including the team captain, must be from association member firms.

.04 Associations of CPA firms wanting to arrange the on-site quality reviews of their members must establish policies and procedures to ensure that the reviews are carried out in a manner that is consistent with the administrative policies established for the Program and the "Standards for Performing and Reporting on Quality Reviews."

.05 An association may not form teams to perform quality reviews of non-association members.

.06 Results of reviews arranged by associations of CPA firms will be evaluated by the entity administering the review (a participating state CPA society or the AICPA Quality Review Division).

.07 Formation of associations of CPA firms for the express purpose of arranging quality reviews is discouraged.

### Independence Requirements

.08 An association and its member firms must meet the following independence criteria:

- a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms. (For purposes of this requirement "professional services" include accounting, tax, personal financial planning, litigation support services and the professional services for which standards are promulgated by bodies designated by AICPA Council, such as Statements on Auditing Standards and Statement on Standards for Accountants' Services on Prospective Financial Information.)
- b. The association does not engage in any of the advertising or solicitation activities that are permitted with respect to member firms except that an association may respond to inquiries and may prepare brochures that firms may use to obtain professional engagements. (Member firms may solicit or advertise to obtain professional engagements in accordance with Rule 502 of the AICPA Code of Professional Conduct.)
- c. The association shall not warrant or make public representations regarding the quality of professional services performed by its member firms. However, member firms may independently publicize their membership in the association.



## **8022 Guidelines for Involvement by Associations of CPA Firms in the Quality Review Program**

- d. The association shall have an independent, triennial review of those materials that could be considered an integral part of its member firm's quality control systems (association quality control materials), such as an audit or accounting manual, continuing professional education courses, etc.\*
- e. Member firms of the association shall not share directly or indirectly, or participate in, the profits of each other. (Correspondent fees are considered revenue, not profit participation.)
- f. Referral or participating work among member firms shall be arranged directly by the firms involved.
- g. The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

.09 The association should confirm that it conforms with the aforementioned independence criteria prior to commencing quality reviews and at the beginning of each subsequent year in which the association desires to be authorized to administer quality reviews.

### **Plans of Administration**

.10 The association may ask for authorization to arrange and carry out the reviews of its members, under the supervision of the entity administering the review, by submitting an administrative plan which covers such matters as the following:

- a. Developing and maintaining a pool of qualified reviewers in the AICPA reviewers' data bank.
- b. Selecting the reviewers.
- c. Training and evaluating reviewers.
- d. Determining that reviews are conducted in accordance with AICPA Standards for Performing and Reporting on Quality Reviews.
- e. Handling of questions raised by reviewers and firms.
- f. Resolving disputes that may arise between a reviewed firm and the association reviewers and reporting unresolved disputes to the entity administering the review.

.11 To satisfy the above requirement, an association of CPA firms may either submit (a) a brief questionnaire developed by the AICPA Quality Review Executive Committee or (b) a more detailed plan of administration which, at minimum, should address each of the items discussed in the questionnaire.

.12 The degree of involvement and the scope of activity of an association of CPA firms may be changed annually by the AICPA or the association of CPA firms.

### **Administrative Reviews**

.13 An association of CPA firms that is authorized to arrange quality reviews shall submit triennially to an independent review of its administrative procedures and to a review of any association quality control materials.

.14 These reviews may be performed concurrently; however, separate reports should be issued. The reviewer shall possess the same qualifications as those required for team captains on quality reviews.

.15 Associations needing to have an administrative review should consult with the AICPA Quality Review Division for further guidance.

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\* Initial reviews shall be performed by December 31, 1991.

# QRP Section 9000

# INSPECTION GUIDANCE

This guide has been developed by the AICPA Division for CPA Firms' Private Companies Practice Section Peer Review Committee and the AICPA Quality Review Executive Committee to assist firms in achieving the benefits to be derived from an effective inspection program. It is not intended to, and does not, establish standards for the performance of an inspection.

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# QRP Section 9000

## *Inspection Guidance*

### Introduction

.01 Statement on Quality Control Standards No.1, *System of Quality Control for a CPA Firm*, (SQCS No. 1) requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. The statement and related interpretations can be found in the *AICPA Professional Standards*, Vol. 2, QC section 10.

.02 SQCS No. 1 identifies nine elements of quality control and states that a firm shall consider each of these elements, to the extent applicable to its practice, in establishing its quality control policies and procedures. The statement recognizes that the nature and extent of a firm's quality control policies and procedures depend on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice and its organization, and appropriate cost-benefit considerations.

.03 One of the nine elements of quality control is inspection. This guide has been developed to assist firms in achieving the benefits to be derived from an effective inspection, especially small firms and sole practitioners. It is not intended to, and does not, establish standards for performance of an inspection.

### Objectives of an Inspection

.04 The objectives of an inspection are to determine if a firm is complying with its quality control policies and procedures and conforming with professional standards during a specified period of time, and to identify on a timely basis areas where improvements may be necessary.

.05 When performing its inspection, a firm may wish to expand its testing to accomplish additional objectives, such as evaluating engagement efficiency, training supervisory staff to effectively review engagements, or testing compliance with requirements of membership organizations or regulatory bodies.

.06 An inspection includes the following basic procedures:

- a. Reviewing and testing the firm's compliance with the quality control policies and procedures that make up the firm's quality control system (compliance testing).
- b. Reviewing selected engagements of the firm, including relevant working papers and reports (engagement testing).
- c. Summarizing the findings from the review of engagements and tests of compliance with quality control policies and procedures.
- d. Determining any corrective actions to be taken and improvements to be made with respect to the specific engagements reviewed or quality control system as a whole.
- e. Communicating the inspection findings and the planned corrective actions to appropriate firm personnel.
- f. Following-up to make sure that the planned corrective actions were taken.

.07 The nature, extent, and timing of an inspection will be largely influenced by environmental factors such as the following:

- a. Size of the firm
- b. Style of management and methods of internal communication.

- c. Level of involvement of senior firm personnel in decision making
- d. The types and mix of accounting, auditing, tax, and other services provided
- e. Industry concentrations and specializations
- f. Background and experience of professional personnel
- g. Extent of appropriate continuing professional education taken by professional personnel
- h. Extent to which others outside the firm are consulted
- i. The results of the firm's last peer review, quality review, or inspection.

## Determining Who Should Perform the Inspection

.08 The assignment of individuals to perform an inspection should be made with the same due care that would be used in assigning personnel to an engagement. In making such assignments, the firm should emphasize the productive nature of the assignment. The importance placed on an inspection will determine how productive it is and the benefits the firm derives.

.09 Depending on the size of a firm, the nature of its practice, and other environmental factors, an inspection may be performed by one individual or by a group of individuals. In either case, the primary responsibility for the inspection should be assigned to an owner of the firm. This person may delegate part or all of the testing procedures to qualified assistants.

.10 In assigning assistants to a task, consideration should be given to the degree of technical training and proficiency required in the circumstances. Some tests of administrative procedures can be performed by nonprofessional staff, but only qualified professional personnel who are knowledgeable in accounting and auditing matters should be involved in the review of engagements. Inspection of engagements, therefore, should be carried out or, at a minimum, carefully supervised by persons who would qualify as reviewers under the standards governing the practice-monitoring program in which the firm is enrolled.

.11 Individuals assigned to the inspection team should be objective when performing their tasks. Although not a requirement, it is desirable, whenever possible, to assign individuals who were not otherwise involved in the performance of the engagements they are to inspect. A checklist that may be used when coordinating an inspection program is included in Appendix A.

.12 Depending on the size of a firm and the environmental factors previously discussed, a firm may wish to consider having someone from outside the firm perform the inspection rather than using internal personnel. Some firms have found this advantageous because the outsider can provide a fresh perspective and may be more objective when performing the various procedures. Unlike peer reviews and quality reviews, inspections may be performed on a reciprocal basis because independence is not an issue that must be considered.

.13 If a firm decides to use inspectors from outside the firm, it should consider the qualifications for inspectors discussed above in making the selection of the individual(s). In such circumstances, an owner of the firm should be given responsibility for coordinating the inspection efforts and ensuring that all appropriate steps are taken, including determining whether necessary corrective actions are taken.

## Timing of the Inspection Program

.14 The inspection program should be timely and it should cover each year between peer reviews or quality reviews. (A firm may elect to have its peer review or quality review substitute for an inspection for the year covered by the review.) Timeliness is important so that any necessary corrective action, especially actions that affect the performance of a subsequent audit, review or compilation, can be implemented before a deficiency, if one took place, is repeated.

.15 Most firms carry out an inspection as if it were a mini-peer or quality review. The review of the firm's compliance with its quality control policies and procedures and review on a post-issuance basis of selected engagements are performed at a fixed time during the year. Some firms, however, prefer to coordinate the review of engagements more closely with other procedures they might have established. Flexibility in timing is entirely appropriate, subject to these two guidelines:

- a. The supervisory review of the working papers, files and reports carried out by the engagement partner before an audit, review or compilation report is issued never qualifies as an inspection procedure.
- b. A firm needs to summarize and take action on inspection findings on engagements on a timely basis. Therefore, if a firm reviews selected or all engagements over a period of time findings should be summarized periodically, not just once a year. This summarization should be based on review notes or point sheets prepared for that purpose, not just on memory.

.16 Firms that inspect engagements at other than one time during the year often do so as part of an ongoing procedure for carrying out an additional preissuance review of the report, financial statements, and working papers by someone not associated with the engagement, such as a second partner or a report review department. (See *AICPA Professional Standards*, Vol. 2, QC Section 10-1.18.)

.17 Some firms may choose to perform an inspection of selected engagements prior to beginning engagement planning. It is particularly important to be certain that the review of the engagement is the equivalent to the review that would have been performed as an inspection procedure after issuance of the report, not just the review that is made under SAS No. 22, "Planning and Supervision," and that the inspection findings are taken into account in planning and carrying out the subsequent engagement.

## How to Perform the Inspection

.18 The scope of an inspection should be similar to that of a peer review or quality review. Sufficient testing should be performed to allow the inspectors to evaluate whether the firm is effectively applying its procedures as they relate to the other eight elements of quality control.

## Review of Compliance with Policies and Procedures

.19 An inspection should address, to the extent applicable, each of the other eight elements of quality control. Firms may choose to address many of the policies and procedures relating to elements such as supervision, consultation, professional development, advancement, assigning personnel to engagements, acceptance and continuance of clients, and hiring during the review of engagements.

.20 Appendix B includes suggested procedures to test compliance with the firm's quality control policies and procedures.

.21 The general procedures to be performed for each of the applicable elements of quality control include:

- a. A review of the firm's policies and procedures and an evaluation of their continuing appropriateness.
- b. A review of the administrative files and interviews of appropriate individuals to verify compliance with and understanding of the firm's policies and procedures.
- c. Testing of compliance with the policies and procedures within the firm's system and/or on selected engagements.

## Review of Engagements

.22 Firms ordinarily place considerable emphasis during an inspection on the review of engagements. In selecting engagements, a firm may find it helpful to consider the guidelines contained in the standards governing

the practice monitoring program in which it is enrolled. These standards provide that the selection should include a reasonable cross section of the firm's auditing and accounting practice.

.23 An inspection should include work performed by a cross section of the firm's personnel involved in the accounting and auditing function. In addition, the selection of engagements to be reviewed should take into consideration—

- a. Industry concentrations
- b. Large, complex, and high risk engagements
- c. Governmental engagements
- d. Initial engagements
- e. Engagements with a significant public interest (such as SEC engagements and audits conducted pursuant to the Employee Retirement Income Security Act)
- f. Engagements that have not previously been inspected or reviewed.

.24 As a general rule, at least 5 to 10% of the firm's accounting and auditing hours should be reviewed during the inspection. The engagements subject to review will be those with years ending during the period under review. However, if a more recent engagement has been performed, that engagement should be reviewed.

.25 The objectives of the review of engagements are to evaluate whether the firm is complying with its quality control policies and procedures and conforming with professional standards, including generally accepted accounting principles (GAAP), generally accepted auditing standards (GAAS), standards for accounting and review services (SSARS), standards for financial forecasts and projections, and standards for financial and compliance audits contained in governmental auditing standards (the "yellow book"). To achieve these objectives, the review should include a review of reports, financial statements, accompanying footnotes, related working papers, correspondence and, where appropriate, discussions with professional staff.

.26 The depth of review of working papers should be left to the judgment of the inspector(s). However, the review of working papers ordinarily should include a review of all "key areas" on an engagement. It does not need to be a review of every working paper. The key areas are the most critical sections in an engagement. Examples of some of the key areas for a manufacturing engagement would be inventory, accounts receivable, accounts payable, sales and cost of sales.

.27 In reviewing engagements, many people find it useful to use engagement review checklists, such as the ones developed by the AICPA for use on peer reviews and quality reviews. However, any other comprehensive reporting, disclosure, and working paper review checklists can be used. (See the section on "Alternative Approaches to Documenting An Inspection.")

.28 Under the AICPA practice monitoring programs, checklists and supplements have been developed specifically for general audits, audits of governmental, not-for-profit, and banking entities, and compilation and review engagements. The engagement checklists may require modification for engagements involving other specialized industries, such as construction and insurance. Checklists and quality control system questionnaires are available in the AICPA *Quality Review Program Manual* and the Division for CPA Firms' peer review manual.

.29 For each engagement reviewed, the inspector should evaluate whether anything came to the individual's attention that caused the inspector to believe that—

- a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles or another comprehensive basis of accounting, if applicable, or the report was appropriately modified.

- b. The firm did not have a reasonable basis under the applicable standards (GAAS, SSARS, or governmental auditing standards) for the report issued.
- c. The report was not appropriate in the circumstances.
- d. The documentation does not support the report issued.
- e. The firm did not comply with its quality control policies and procedures.

.30 Should an inspector believe that the firm may have issued an inappropriate report on a client's financial statements or omitted necessary procedures, the firm should investigate the matter and determine what action, if any, should be taken pursuant to AU sections 561 and 390 and AR Sections 9100.13-15 of the AICPA's *Professional Standards*.

## Other Review Procedures

.31 During an inspection, many firms test compliance with the membership requirements of the various organizations to which they or their members belong—the AICPA, state CPA societies, PCPS, and SECPS—even though this is not required by quality control standards. As a practical matter, many of these membership requirements are covered by the firm's quality control policies and procedures and are tested during other phases of the inspection. For example, compliance with the AICPA's and the Division for CPA Firms' continuing professional education requirements (CPE) may be tested when the firm's policies and procedures for professional development are inspected. Appendix C includes a program for testing compliance with certain of the Division for CPA Firms' membership requirements.

## Summarizing Inspection Findings

.32 At the conclusion of the various inspection procedures, each finding should be evaluated in conjunction with the other findings noted during the inspection for the implications to the firm's quality control system as a whole. For example, on one engagement a minor disclosure may have been omitted that results in a note to the file reminding the engagement personnel to make sure that the disclosure is made in next year's financial statements. If the deficiency is noted on several engagements, corrective action also may be needed on a firm-wide basis to prevent the recurrence of these deficiencies.

.33 Regardless of when engagements are inspected, inspection findings should be summarized in a manner that enables a firm to best determine the necessary corrective actions. Some firms use the summary review engagement checklists from the peer review and quality review manuals for summarizing engagement related inspection findings. Other firms scan the findings and summarize them informally; this is common when the number of engagements reviewed is small and/or the number of findings is minimal.

## Reporting on Inspection Findings

.34 Appropriate documentation requirements should be established by each firm to demonstrate compliance with its policies and procedures for inspection (see the next section on "Alternative Approaches to Documenting An Inspection"). At a minimum, a report or memorandum should be prepared on the scope of the inspection, the inspection findings, and the recommendations of the inspectors. A sample report that a firm may use for this purpose has been developed and is included in Appendix D, or the firm may develop its own reporting format. For multi-office firms, consideration should be given to preparing a separate report for each office inspected.

## Determining Necessary Corrective Actions

.35 Upon receipt of the inspection report, the owner(s) of the firm should evaluate what corrective actions, if any, should be taken in connection with the recommendations of the inspector(s). Corrective actions can include:

- a. Additional staff training in specific areas or industries.
- b. Changes in quality control policies and procedures.
- c. Updates or additions to technical manuals and practice aids.
- d. More careful monitoring of compliance with the policies and procedures.
- e. Appropriate corrective actions on specific engagement deficiencies.

.36 There should be a record of the corrective actions and improvements planned by the firm to address the findings and appropriate assignment of responsibility for implementing the recommendations.

## Communicating Inspection Findings and Corrective Actions

.37 After the necessary corrective actions have been decided, the inspection findings and the changes being made as a result of those findings should be communicated orally or in writing to the owners and employees of the firm (if any).

## Following-Up on Planned Corrective Actions

.38 Timely and effective follow-up on the steps taken to implement planned corrective actions is critical to an effective inspection program. Within a reasonable period of time after the firm was scheduled to take the planned corrective actions, steps should be taken to determine whether the planned corrective actions have been acted upon and whether they have achieved the objectives for which they were designed.

## Retention of Inspection Documents

.39 Firms should determine the period that detailed inspection working papers are to be retained. Retention may be necessary if the firm intends for the peer reviewer or quality reviewer to place reliance on the inspection. (Typically, reviewers of smaller firms will place little or no reliance on the inspection due to scope requirements and cost/benefit considerations. If that is expected to be the case, it is recommended that detailed working papers be discarded after a summary or report has been prepared.) The inspection summary or report should be retained and available to the peer or quality reviewers.

## Alternative Approaches to Documenting an Inspection

.40 The size and nature of a firm and the environment in which it practices will affect the extent of documentation prepared regarding the inspection procedures, findings, and corrective actions. A formal or an informal documentation approach can be used.

.41 Under the *formal approach* to inspection documentation, inspector(s) will—

- a. Complete the quality control compliance program in Appendix B or develop and complete other comprehensive program(s).
- b. Complete comprehensive engagement review checklists, such as those used by peer reviewers and quality reviewers while performing the review of reports, financial statements, footnotes and working papers on selected engagements.



- c. Prepare summaries of findings on compliance tests and reviews of engagements.
- d. Prepare an inspection report such as the one in Appendix D.

.42 Generally, the *formal approach* is preferable for all CPA firms regardless of size.

.43 Under the *informal approach* to inspection documentation, inspector(s) will—

- a. Review compliance with its quality control policies and procedures without preparing or completing a quality control compliance program.
- b. Review selected reports, financial statements, and working papers without formally completing comprehensive engagement review checklists such as those used by peer reviewers and quality reviewers. (In these cases, the firm will usually make reference to such a checklist to make sure that all appropriate matters are considered.)
- c. Keep notes (or summaries) reflecting the deficiencies noted during the performance of inspection procedures.
- d. Prepare an inspection report such as the one in Appendix D.

.44 The *informal approach* has only been found to be effective for sole practitioners without professional staff and firms with very small accounting or auditing practices.

.45 Examples of the application of the approaches to the inspection and the documentation thereof are included in Examples 1 through 3 at the end of this document along with a description of the environmental factors influencing the inspection program.

## Relationship of Consulting Reviews to Inspections

.46 Some firms may have a consulting review before their initial quality review or peer review. Consulting reviews are confidential, “trial-run” reviews during which a reviewer, who has experience relevant to the firm undergoing the review, will visit the firm, usually for 1 day, to identify strengths and/or weaknesses and give the firm advice on how to prepare for the review. The review includes a cursory review of the working papers, financial statements, and reports prepared by the firm.

.47 A firm planning to have a consulting review may wish to consider whether the consulting review it plans to have should be expanded to satisfy the firm’s annual inspection requirement for the year. Depending on the size of the firm, an inspection may be performed instead of a consulting review for only a little more money.

## Benefits of an Inspection

.48 An inspection can assure a firm that it has an effective quality control system in place and that the firm’s quality control system is being complied with. It also ensures that the firm will have the chance to make improvements or changes in its quality control system on a timely basis. Oftentimes, the professionals know the strengths and weaknesses of their firm. However, time does not always permit the firm to focus on these areas and make necessary changes. An inspection allows the firm to allocate time at least once a year to focus on its strengths and weaknesses with the intent of improving the overall quality of the firm and the services it provides.

**Appendix A**  
**Checklist for Coordinating**  
**an Inspection Program**

*Initial**Date*

- |   |       |       |
|---|-------|-------|
| 1. Determine who will coordinate the inspection program for the firm.   | _____ | _____ |
| 2. Determine who will perform the inspection.   | _____ | _____ |
| 3. Establish the approach and timetable for performing the inspection procedures.   | _____ | _____ |
| 4. Determine forms and checklists to be used during the inspection and the extent of documentation required.  | _____ | _____ |
| 5. Make a selection of engagements for review.  | _____ | _____ |
| 6. Review administrative files for compliance with the firm's quality control policies and procedures.  | _____ | _____ |
| 7. Review the selected engagements.   | _____ | _____ |
| 8. Summarize the inspection findings and determine what corrective actions should be taken.   | _____ | _____ |
| 9. Prepare an inspection report covering the scope of the inspection, the inspection findings, and the recommended corrective actions.                                    | _____ | _____ |
| 10. Decide how long to retain detailed inspection working papers.   | _____ | _____ |
| 11. Review the recommended corrective actions and reach final conclusions on the actions to be taken.   | _____ | _____ |
| 12. Communicate the inspection findings and the planned corrective actions to the other members of the firm (if any).   | _____ | _____ |
| 13. Follow-up on planned corrective actions to determine whether the actions were taken as planned and whether they achieve the objective(s) for which they were planned. | _____ | _____ |

# **Appendix B** **Program for Inspection of Compliance With Policies and** **Procedures Related to the Elements of Quality Control**

Period Covered \_\_\_\_\_

	<i>Findings, Including Extent of Testing</i>	<i>Done By</i>
<p><b>Independence</b></p> <ol style="list-style-type: none"> <li>1. Identify a sample of situations in which independence questions arose during the period being inspected and consider whether the resolution of such questions appears appropriate.</li> <li>2. Review the written independence confirmations obtained by the firm for a sample of professional personnel, if required by firm policy.</li> <li>3. Determine by review of appropriate documentation and by discussions with selected staff that the firm has advised all professional personnel on a timely basis of entities to which the independence rules apply and that professional personnel are familiar with the firm's independence policies and procedures.</li> <li>4. Determine by a review of selected engagements whether fees were paid for the prior year's services prior to the issuance of the current year's report.</li> </ol> <p><b>Consultation</b></p> <ol style="list-style-type: none"> <li>1. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and that loose-leaf services are filed on a timely basis.</li> <li>2. On the engagements reviewed, determine whether consultation took place and was documented in accordance with the firm's policies.</li> <li>3. If sufficient testing of consultation policies and procedures was not performed in 2 above, determine through inquiry or review of subject files whether consultations took place and were correctly applied.</li> </ol> <p><b>Supervision</b></p> <ol style="list-style-type: none"> <li>1. On the engagements reviewed:               <ol style="list-style-type: none"> <li>a. Determine whether the technical materials (audit manuals, standardized forms, checklists, and questionnaires) that are required by firm policy were used.</li> </ol> </li> </ol>		

Findings, Including  
Extent of Testing

Done By

- b. Evaluate whether the technical materials are sufficiently comprehensive and up-to-date.
- c. Determine whether the firm complied with its policies and procedures for the review of engagement working papers, reports and financial statements.
- d. Determine whether the firm's procedures for resolving differences of opinions among members of the engagement team were followed and are appropriate.

**Professional Development**

- 1. Review the firm's CPE records on a test basis and consider whether:
  - a. They appear adequate to demonstrate compliance with AICPA, state board, and state society requirements and whether they indicate that the firm's plans for CPE were carried out.
  - b. Professional personnel have complied with the CPE requirements set forth in *Government Audit Standards* (if applicable).
  - c. Professional personnel have complied with the Section's requirements (if the firm is a member of either the PCPS or the SECPS).

**Assigning Personnel to Engagements**

- 1. Determine whether staffing and scheduling requirements were identified on a timely basis and approved by appropriate personnel.
- 2. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate.

**Hiring**

- 1. Determine by reviewing personnel files of recently hired employees whether:
  - a. The background information and other documentation required by firm policy were obtained.
  - b. The individuals possessed the desired attributes, achievements, and experience and, if not, why an exception was made.

**Advancement**

- 1. Determine by reviewing personnel files whether personnel have been evaluated and promoted in accordance with the firm's policies and procedures.

*Findings, Including  
Extent of Testing*

*Done By*

**Acceptance and Continuance of Clients**

1. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its policies and procedures and with professional standards.

**Inspection**

1. Determine whether appropriate corrective actions were taken, including effective follow-up, with respect to the prior period's inspection findings.

## Appendix C

**Optional Program for Review of Compliance With the  
Division for CPA Firms' Membership Requirement**

Period Covered \_\_\_\_\_

	<i>Findings, Including Extent of Testing</i>	<i>Done By</i>
1. Determine whether each proprietor, shareholder, or partner of the firm resident in the United States and eligible for AICPA membership is a member of the AICPA.		
2. Determine whether a majority of the members of the firm are CPAs (a separate determination may not be necessary, depending on the results of the previous step.)		
3. Determine whether the firm filed its most recent annual report with the section.		

## Appendix D

## Sample Inspection Report

Inspection period from \_\_\_\_\_ to \_\_\_\_\_

Name of inspectors \_\_\_\_\_

Timing of Inspection \_\_\_\_\_

Briefly describe the inspection program (including major considerations in selecting engagements and offices to be reviewed). \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Scope of engagements reviewed:

	<i>Firm Totals*</i>		<i>Engs. Reviewed*</i>	
	<i>Hrs.</i>	<i>No. of Engs.</i>	<i>Hrs.</i>	<i>No. of Engs.</i>
Audits				
Reviews				
Compilations				
Other Accounting Services				
Total				
Percentage of A&A Practice Reviewed				

Did the inspection disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional auditing or review procedures to provide a basis for the report issued? If yes, describe the situation and the action taken by the firm. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

The inspection findings and the recommendations regarding actions taken for improvements in the firm are attached.

Inspection Coordinator Signature \_\_\_\_\_ Date \_\_\_\_\_

Approved \_\_\_\_\_ Date \_\_\_\_\_

[The next page is 9019.]

\* Approximate totals may be used.

**Example 1**  
**of the Application of the Inspection Guidelines \***

**DESCRIPTION OF THE FIRM**

Size of Firm	2 Partners 6 Professional staff other than the partners 1 Office								
Background	Each of the partners has 15 years of public accounting experience; the last 5 years have been spent as partners.								
Nature of Practice	<table> <tr> <td>8 Audits</td><td>1500 hours</td></tr> <tr> <td>20 Reviews</td><td>800 hours</td></tr> <tr> <td>40 Compilations with disclosures</td><td>600 hours</td></tr> <tr> <td>90 Compilations omitting substantially all disclosures</td><td>600 hours</td></tr> </table> Tax and management advisory service engagements make up the remainder of the practice.	8 Audits	1500 hours	20 Reviews	800 hours	40 Compilations with disclosures	600 hours	90 Compilations omitting substantially all disclosures	600 hours
8 Audits	1500 hours								
20 Reviews	800 hours								
40 Compilations with disclosures	600 hours								
90 Compilations omitting substantially all disclosures	600 hours								
Industry Concentrations	The major concentrations are construction, not-for-profit organizations, and school districts. The firm also has clients in: manufacturing, retail, and professional services. The firm does no audits of SEC clients.								
Environment	<ul style="list-style-type: none"> <li>• While each partner has auditing and accounting clients, one partner performs the majority of the auditing and accounting engagements.</li> <li>• On certain larger engagements, one partner will review the financial statements prepared in connection with the other partners' clients.</li> <li>• The partner responsible for the 4 school district audits is responsible for ensuring that he and the primary staff on those audits have the necessary CPE under <i>Government Auditing Standards</i>.</li> <li>• The firm periodically holds in-house CPE for the staff which is taught by one of the partners.</li> </ul>								

**INSPECTION PROCEDURES**

Timing of Inspection	All inspection procedures will be performed during November since the 4 school district audits are not completed until September. This timing is believed to be the most effective and efficient. (The partners recognized that they could expand their preissuance review procedures if they so desired.)
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\* This is an example of the application of the inspection guidance contained in this document. Practitioners should not assume that following this example or the other examples in this document will automatically satisfy the objectives of an inspection. Careful attention must be given to making sure that these objectives are achieved.



Documentation Approach	<p>The partners have agreed that the formal documentation approach should be adopted since the committees governing the AICPA practice-monitoring programs believe that the formal documentation approach is more effective. The formal approach will include the completion of:</p> <ul style="list-style-type: none"><li>• Appendix B of this document when testing the applicable elements of quality control.</li><li>• The engagement review checklists used in performing quality reviews and peer reviews. The partners believe that these checklists act as good "memory joggers" for accounting issues that they encounter on an infrequent basis.</li></ul>
Summarization	<p>After the sample of engagements is inspected and the applicable elements of quality control have been tested, the deficiencies will be summarized and the coordinating partner will evaluate what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.</p>
Reporting	<p>After the inspection procedures are performed, the inspection report contained in Appendix D of this document will be completed.</p>
Retention Policy	<p>After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.</p>
Follow-Up	<p>4 months after the inspection report is prepared and the planned corrective actions are identified, the coordinating partner will perform sufficient procedures to determine whether the corrective actions have been taken and whether they have achieved their objectives.</p>

**Example 2**  
**of the Application of the Inspection Guidelines**

**DESCRIPTION OF THE FIRM**

<b>Size of Firm</b>	Sole practitioner without staff		
<b>Background</b>	The sole practitioner has 15 years of public accounting experience of which the last 5 have been spent as a sole practitioner.		
<b>Nature of Practice</b>	2 Audits		300 hours
	5 Reviews		200 hours
	10 Compilations with disclosures		200 hours
	44 Compilations omitting substantially all disclosures (generated by a computer)		220 hours
	Tax and management advisory service engagements make up the remainder of the practice.		
<b>Industry Concentrations</b>	None. However, the firm does have clients in the following areas: manufacturing, wholesale distribution and professional services. The firm does no audits of SEC or governmental clients.		
<b>Environment</b>	<ul style="list-style-type: none"> <li>• The sole practitioner is a member of an informal group of sole practitioners that meets twice a month to discuss issues of common interest and concern (including accounting, auditing, tax, and management topics).</li> <li>• The practitioner is active in state CPA society activities and frequently attends CPE sessions held by the society.</li> <li>• The practitioner consults with others when unsure about the approach to be taken on an accounting, auditing, or tax issue.</li> </ul>		

**INSPECTION PROCEDURES**

<b>Timing of Inspection</b>	The practitioner believes that he can be more efficient by performing an inspection of engagements immediately before he plans the next year's engagements.		
<b>Documentation Approach</b>	<p>A combination of the two approaches has been chosen as described below:</p> <ul style="list-style-type: none"> <li>• Appendix B of this document will be used to test and document the review of the applicable elements of quality control. This review will be performed each November immediately before the practitioner's busy season.</li> <li>• A preplanning engagement checklist has been developed that addresses the objectives of inspection. Inspection procedures will include a review of the report, financial statements, and working papers on last year's engagement to determine whether — <ul style="list-style-type: none"> <li>a. The report and financial statements conform with applicable professional standards.</li> <li>b. The engagement was performed in accordance with applicable professional standards (statements on auditing standards, statements on accounting and review services, etc.).</li> </ul> </li> </ul>		

**Documentation  
Approach  
(cont'd)**

- c. The engagement has been performed in accordance with the firm's policies and procedures.

Although comprehensive engagement review checklists—such as those used by peer and quality reviewers—will not be completed, the practitioner plans to periodically make reference to those checklists while performing the inspection procedures.

**Summarization**

While any deficiencies noted on engagements are corrected when the next year's engagement is performed, summaries of the findings are kept in an Inspection Finding Folder. (The names of the clients are not retained on the summaries.) Each May and November, the practitioner summarizes the findings and evaluates what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.

**Reporting**

In May and November, the inspection report contained in Appendix D of this document will be completed.

**Retention  
Policy**

After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.

**Follow-Up**

5 months after the inspection report is prepared and the planned corrective actions are identified, the practitioner will perform sufficient procedures to determine whether the corrective actions indicated in the inspection report have been taken and whether they have achieved their objectives.

**Example 3**  
**of the Application of the Inspection Guidelines**

**DESCRIPTION OF THE FIRM**

<b>Size of Firm</b>	Sole practitioner with 1 part-time professional staff person		
<b>Background</b>	The sole practitioner has 25 years of public accounting experience of which the last 15 have been spent as a sole practitioner.		
<b>Nature of Practice</b>	2 Audits		250 hours
	2 Reviews		75 hours
	2 Compilations with disclosures		40 hours
	11 Compilations omitting substantially all disclosures		60 hours
	Tax and management advisory service engagements make up the remainder of the practice.		
<b>Industry Concentrations</b>	None. However, the firm does have clients in the following areas: manufacturing, construction, and not-for-profit organizations. The firm does no audits of SEC or governmental clients.		
<b>Environment</b>	<ul style="list-style-type: none"> <li>• The practitioner takes various continuing professional education (CPE) courses offered by the state CPA society, primarily in the tax area; the practitioner takes very few CPE courses on accounting or auditing topics except for an annual auditing and accounting update course.</li> <li>• The practitioner takes a majority of his courses in a self-study format.</li> <li>• The practitioner rarely finds the need to consult with individuals outside his firm on accounting or auditing issues.</li> </ul>		

**INSPECTION PROCEDURES**

<b>Timing of Inspection</b>	Because of the practitioner's focus on tax practice, he believes that more can be gained by performing a detailed review of engagements at one time during the year; this also will allow him to more readily focus on the objectives of an inspection. The practitioner believes that he can perform his own inspection since his auditing and accounting practice is not very complex. However, he recognizes that he could use someone from outside the firm (perhaps on a reciprocal basis) if he so desires.
<b>Documentation Approach</b>	<p>Due to the practitioner's limited accounting and auditing related CPE, the formal approach will be chosen as described below:</p> <ul style="list-style-type: none"> <li>• Appendix B of this document will be used to test and document the review of the applicable elements of quality control. This review will be performed each July.</li> <li>• The engagement review checklists used in performing quality reviews and peer reviews will be completed to document the review of the selected engagements.</li> </ul>
<b>Summarization</b>	After the sample of engagements is inspected, the deficiencies will be summarized and the practitioner will evaluate what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.

<b>Reporting</b>	After the inspection procedures are performed, the inspection report contained in Appendix D of this document will be completed.
<b>Retention Policy</b>	After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.
<b>Follow-Up</b>	6 months after the inspection report is prepared and the planned corrective actions are identified, the practitioner will perform sufficient procedures to determine whether the corrective actions have been taken and whether they have achieved their objectives.

**Exhibit 1**  
**Sample Completed Inspection Report**

Inspection period from October 1, 19XX to September 30, 19X1

Name of inspectors John Smith  
James Doe

Timing of Inspection—November 19X1

Briefly describe the inspection program (including major considerations in selecting engagements and offices to be reviewed). Appendix B of the Inspection Guidance was used to test compliance with our quality control policies and procedures and the engagement review checklists contained in the Quality Review Program Manual were used when reviewing engagements. A representative sample of engagement was selected, including audit, review, and compilation engagements. The engagements covered our major industry concentrations (school districts, not-for-profit organizations, construction).

Scope of engagements reviewed:

	<i>Firm Totals*</i>		<i>Engs. Reviewed*</i>	
	<i>Hrs.</i>	<i>No. of Engs.</i>	<i>Hrs.</i>	<i>No. of Engs.</i>
Audits .....	1500	8	350	2
Reviews .....	800	20	80	2
Compilations .....	1200	130	80	4
Other Accounting Services .....	—	—	—	—
 Total .....	<u>3500</u>	<u>- 158</u>	<u>510</u>	<u>8</u>

Percentage of A&A Practice Reviewed .....	<u>14.6%</u>	<u>5%</u>
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Did the inspection disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional auditing or review procedures to provide a basis for the report issued? Yes x, No     . If yes, describe the situation and the action taken by the firm. In error, a management representation letter was not obtained from an audit client. This letter has now been obtained.

The inspection findings and the recommendations regarding actions taken for improvements in the firm are attached. SEE ATTACHED.

Inspection Coordinator Signature \_\_\_\_\_ Date \_\_\_\_\_  
Approved \_\_\_\_\_ Date \_\_\_\_\_

\* Approximate totals may be used.

### Inspection Findings and Recommendations

Finding: On some of the engagements reviewed, we noted a few disclosure deficiencies that would have been caught if the firm had required the completion of a comprehensive reporting and disclosure checklist.

Recommendation: The firm should adopt a policy requiring that a comprehensive reporting and disclosure checklist be completed on all engagements on which the firm reports on year-end financial statements.

Finding: On several engagements reviewed, we noted that the working papers did not document the extent of testing of related party transactions and review of subsequent events. However, we are satisfied that the necessary procedures were performed on each engagement.

Recommendation: The firm should expand its standard audit program to include procedures for testing related party transactions and reviewing subsequent events.

Finding: On one audit engagement, the firm failed to obtain a management representation letter even though such letters are required under auditing standards. Our testing was expanded to cover all of the firm's audit clients to ensure that this was an isolated occurrence.

Recommendation: The firm should develop a final report routing sheet that documents all procedures that have not been performed at the time that a report is submitted for typing. The firm should establish procedures to ensure that all of the procedures outlined on the routing sheet are performed before the report is issued.

Finding: While the firm circularizes independence confirmations among its staff on an annual basis, two individuals failed to sign the confirmations.

Recommendation: The partner-in-charge of obtaining the independence confirmations should monitor receipt of the confirmations and report to the other partners when they have all been returned.

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**QRP****APPENDIXES****CONSULTING REVIEW PROGRAM FOR CPA FIRMS IN PUBLIC PRACTICE**

The Consulting Review Program was originally conceived and developed by the Private Companies Practice Section of the AICPA Division for CPA Firms in 1985 to help CPA firms evaluate their quality controls and prepare for an independent review of their quality control system. The program is available to all interested CPA firms.

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[The next page is 10,021.]



# **Appendix A**

## ***Consulting Review Program Guidelines***

### **Overview**

.01 The purpose of a consulting review is to help a firm evaluate and improve its quality controls and to prepare for an independent peer review or quality review of its quality control system.

.02 The consulting review program was originally conceived and developed by the Private Companies Practice Section of the AICPA Division for CPA Firms. The review is now carried out using guidelines, programs, and checklists developed by the AICPA Quality Review Division. These materials are included in this appendix.

.03 Arrangements for consulting reviews can be made by contacting:

- a. Participating state CPA societies
- b. The AICPA Quality Review Division

### **General Description of the Program**

.04 During a visit to the firm, the consulting reviewer obtains a general understanding of the firm's system of quality control by interviewing appropriate firm personnel and by reviewing a brief quality control questionnaire completed by the firm.

.05 The reviewer discusses the firm's responses to his questions and deals with specific quality control questions raised by the firm.

.06 The reviewer also performs a limited review of selected reports, the related financial statements, and working papers for each type of service (audit, review, and compilation) the firm provides.

.07 The results of the review, including related suggestions, are discussed orally at the completion of the review. No written notes pertaining to the review of the firm's records are retained by the reviewer.

.08 For firms with generally up to twenty professionals, the review involves one reviewer for one day. For larger firms, the review may take two days or more depending on the circumstances.

.09 For further information about the Consulting Review Program, call your state CPA society or the AICPA at 212/575-5477.

## Consulting Review Program

### Introduction

The purpose of a consulting review is to help a firm evaluate and improve its quality controls and to prepare for an independent peer review or quality review of its quality control system.

The consulting review program was conceived and developed by the Private Companies Practice Section (PCPS) of the AICPA Division for CPA Firms in 1985. However, a firm does not have to be a member of the PCPS to have a consulting review.

### Description of Program

The review is conducted at the reviewed firm's office and is usually completed in one day. Consulting reviewers are selected from a master reviewer bank maintained by the AICPA. These reviewers are experienced practitioners who are well-versed in the design and implementation of a quality control system and in accounting and auditing matters relevant to the industries in which the firm's clients practice. No written report is issued, and the results are discussed only with the firm. Therefore, confidentiality is assured. Firms being reviewed can choose to have a reviewer from the same geographic area or from another region.

During a visit to the firm, the consulting reviewer obtains an understanding of the firm's system of quality control by interviewing appropriate firm personnel and by reviewing a brief quality control questionnaire completed by the firm. The reviewer discusses the firm's responses to his questions and deals with specific quality control questions raised by the firm. The reviewer also performs a limited review of selected reports, accompanying financial statements, and working papers for each type of service (audit, review and compilation) the firm performs.

The results of the review, including related suggestions, are discussed orally at the completion of the review. No written notes pertaining to the review of the firm's records are retained by the reviewer. The results of the review are not provided to the AICPA, state CPA societies, the Division for CPA Firms, the AICPA Quality Review Executive Committee, or any other party.

For firms with generally up to twenty professionals, the review involves one reviewer for one day. For larger firms, the review may take two days or more depending on the circumstances. The fee for the review is presently \$500 per day (as of 1/1/89) plus travel and out-of-pocket expenses incurred by the reviewer.

The intent of the consulting review program is to provide a firm with assistance in those quality control areas in which it believes that it may need the most guidance. Therefore, the firm should communicate to the reviewer, those quality control areas that the firm wishes to be emphasized. For example, one firm may want a reviewer to provide guidance on how to establish a quality control system whereas another firm may want the reviewer to evaluate an existing system.

The Private Companies Practice Section may subsidize a portion of the cost of a consulting review for firms that choose to be PCPS members. Half the fee (not including expenses) up to \$250, will be refunded to the firm or applied against the cost of the firm's first PCPS peer review provided the firm's membership is continuous from the date of the consulting review until that firm's first peer review. Firms that are not members of the section will be given a similar refund or credit if the firm joins the section within one year of the date of the consulting review.

A consulting review does not constitute an inspection, as that term is used in Statement on Quality Control Standards 1, nor does the review qualify as meeting the AICPA membership requirement for participation in an "Institute-approved practice-monitoring program." That is, it is not a substitute for a peer review or a quality review. In addition, due to the substantially limited scope of the consulting review, the results of subsequent peer reviews or quality reviews may possibly differ significantly in one or more aspects from those of the consulting review.

Comments provided by the reviewer are offered for the firm's consideration subject to its professional judgment and evaluation in making use of them. Comments expressed by the reviewer are not official opinions of the Institute or of any participating state CPA society, or any of their committees but are the views of the individual who offers them. Accordingly, such comments are not binding upon a review team conducting a peer review or a quality review.

### **Timing**

A consulting review should ordinarily be completed sufficiently in advance of the firm's peer review or quality review to allow the reviewed firm to appropriately consider and implement any recommendations made by the consulting reviewer.

## Consulting Review Program Instructions to Firms

Notes

1. Complete the Consulting Review Program General Scheduling Information form and submit it to the AICPA or the state CPA society arranging the review.
2. The terms and conditions of the consulting review will be summarized in an engagement letter that will be forwarded to the firm along with information about the individual who has been selected to perform your consulting review.
3. A copy of the engagement letter should be signed and returned to the AICPA or the state CPA society arranging the review.
4. Complete the "Consulting Review Program Quality Control Questionnaire" to the extent possible (see Appendix A).
5. Prior to the review, send the reviewer a copy of the following documents:
  - a. Consulting Review Program General Scheduling Information form.
  - b. Consulting Review Program Quality Control Questionnaire.
6. Prior to the review, select 2 of each type of engagement (audit, review, and compilation) that the firm performs. Engagements selected by the firm should include work performed by different supervisory personnel and be representative of the major industries serviced by the firm. Reports, the related financial statements, and working papers for the selected engagements should be assembled and readily accessible to the reviewer. The reviewer will attempt to review at least one engagement for each type of service provided. However, a limited review of certain portions of your other selected engagements may be performed by the reviewer if time permits or if the reviewer wishes further information about a particular aspect of your practice.
7. If the firm has specific goals that it wishes to accomplish during the consulting review, discuss these goals with the reviewer.
8. Key firm personnel and persons with significant responsibility for the selected engagements should be advised to be available to the reviewer.
9. Upon completion of the review, the reviewer will communicate his or her findings at an exit conference, which should be attended by appropriate firm personnel. All written materials (questionnaires, checklists, comment sheets, etc.) developed by the reviewer in connection with the consulting review will be given to the reviewed firm.
10. Complete "Reviewed Firm's Evaluation of Consulting Review Program" (Appendix B) and submit it directly to the AICPA Quality Review Division.

**Consulting Review Program Suggested Review Procedures**

The procedures that follow are intended as a general guide for a reviewer conducting a consulting review. The reviewer's professional judgment is essential in applying or modifying the procedures to suit the needs of a particular review. It is recommended that reviewers have available and be familiar with the contents of the *AICPA MAP Handbook and the AICPA Accounting and Auditing Manual*, which contain many examples of procedures and forms that may be useful to the reviewed firm. In addition, reviewers should be familiar with (a) the quality control standards and the typical quality control policies and procedures that may be applicable to the reviewed firm's practice and (b) standards for performing and reporting on quality reviews and peer reviews. Areas in which the reviewer feels there may be a need for significant improvement should ordinarily be noted on separate comment sheets which should be given to the firm.

Notes

**General Procedures**

1. Review the background information supplied by the reviewed firm.
2. Discuss the specific goals that the firm wishes to accomplish during the review with the firm.
3. Obtain a general understanding of the firm's quality control system by interviewing appropriate personnel and reviewing the "Quality Control Questionnaire" completed by the firm. If the firm being reviewed has documented quality control policies and procedures (for example, a quality control document or a completed quality control policies and procedures questionnaire), it may provide that documentation to the reviewer in lieu of this questionnaire.
4. Review sample forms, checklists, questionnaires, etc., for appropriateness and comprehensiveness. Consider whether such materials—
  - a. Meet the objectives for which they were designed.
  - b. Have been updated for recent technical pronouncements where appropriate.
  - c. Provide the firm with reasonable assurance of conforming with professional standards.
5. From the engagements selected by the firm for review, choose a sample of engagements and review each engagement using the "Engagement Questionnaire" contained in Appendix B. In choosing the sample, you should attempt to review at least one engagement for each type of service (audit, review and compilation) the firm provides. If time permits or if you wish further information about a particular aspect of the firm's practice, you may also want to perform a limited review of certain portions of the other engagements selected by the firm.
6. Based on a reading of the financial statements and report for each engagement, together with the information contained in the "Engagement Questionnaire" consider whether—
  - a. The financial statements appear to conform with generally accepted accounting principles (or, if applicable, with an other comprehensive basis of accounting) in all material respects.
  - b. The report issued by the firm appears to conform with professional standards.

7. Review selected working papers for compliance with professional standards and with the firm's policies and procedures. Note that many firms need guidance as to the extent to which working papers should document the procedures performed and some need consultation on the application of professional standards.
8. Hold an exit conference to discuss points accumulated during the review. Sufficient time should be reserved. Advise the firm as to your evaluation of the firm's quality control system and any suggestions for improvement. Keep in mind that the purpose of the consulting review is to help firms to improve the quality of their practices and to prepare them for peer review or quality review. Remind the firm that the consulting review, because of its limited nature, does not constitute an inspection of either functional areas of quality control or engagements nor does the review substitute for any part of a peer review or quality review. Consequently, such reviewers may disclose additional areas for which the firm may require substantial improvement in or modification of its quality control system. Finally, remind the firm that the consulting review program was established by the PCPS in 1985 as a service to CPA firms. Leave the flyer "Why You Should Join the Division for CPA Firms" with the firm.
9. All questionnaires, checklists, comment sheets, etc., developed in connection with the review (except for the "Reviewer's Completion Notification" form) *must remain with the reviewed firm*.
10. Remind the firm to submit "Reviewed Firm's Evaluation of Consulting Review Program" directly to the AICPA Quality Review Division, even when a state CPA society arranged the review.
11. Complete "Reviewer's Completion Notification" form (Appendix E) and submit it directly to the AICPA Quality Review Division or to the state CPA society that arranged the review along with your bill for fees of \$500 per day and out-of-pocket expenses. Please use the form included in Appendix F and make sure the bill includes the federal employer identification number for Form 1099 purposes.

**Consulting Review Program**  
**QUALITY CONTROL QUESTIONNAIRE**

This questionnaire is designed to provide an overview of the firm's quality control policies and procedures and to describe the documentation evidencing compliance with the system. The firm should fill out this questionnaire, to the extent possible, prior to the arrival of the consulting reviewer and send a copy to the consultant for review along with a copy of the Consulting Review Program General Scheduling Information form.\*

The reviewer will review the responses made by the firm to the questions asked on this questionnaire. Based on these responses, the reviewer will consider whether changes to the system may be appropriate or whether further clarification of the objective of a quality control element or procedure is necessary. At the completion of the review, the reviewer will return this questionnaire to the firm along with a brief description of any changes that are recommended.

**General****Response and Comments \*\***

1. Does your firm have documented quality control policies and procedures (for example, a quality control document or a summary statement of the firm's procedures with references to supporting information)?
2. Does your firm use any externally developed quality control materials (for example, auditing and accounting manuals, checklists, questionnaires, work programs, etc.)? If yes, please indicate the publisher of the materials.

**Independence**

1. How does the firm inform its professional personnel of the applicable independence requirements?
2. How does the firm inform its professional personnel of the new clients to which independence requirements apply?
3. Does the firm obtain, at least annually, written representations from all professional personnel covering applicable independence requirements?
4. How are independence questions resolved and documented?
5. Does the firm have any engagements where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagements? If the answer is yes:
  - a. Does the firm confirm the independence of such other firm(s)?
  - b. Does it do so in writing?

\* If the firm being reviewed has documented quality control policies and procedures (for example, a quality control document or a summary statement of the firm's procedures with references to supporting information), the firm may wish to send a copy of such documentation to the reviewer in lieu of completing this questionnaire.

\*\* Attach additional sheets if necessary.

c. Does it do so annually?

6. Are accounts receivable periodically reviewed to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence?

### Assigning Personnel to Engagements

1. How are staff assigned to engagements?

### Consultation

1. How does the firm determine when to consult others and with whom to consult?
2. Describe the extent to which the firm documents consultations. Where is such documentation maintained?
3. Does the firm's library include current editions of—
- a. AICPA Professional Standards?
  - b. AICPA industry audit guides relevant to the firm's practice?
  - c. FASB pronouncements?
  - d. GASB pronouncements, *Government Auditing Standards*, and other government audit guides relevant to the firm's practice?

### Supervision

1. Indicate for each type of engagement (audit, review, and compilation) which, if any of the following documents are prepared:
- a. Engagement letter.
  - b. Planning memorandum.
  - c. Audit or work program.
  - d. Management representation letter.
  - e. Legal letters.
2. Indicate whether the firm has written guidance materials regarding the following matters. If the materials were obtained from another source, name that source.

\*\* Attach additional sheets if necessary.



## Response and Comments \*\*

- a. Evaluation and documentation of internal controls, including computer controls.
  - b. Consideration of internal controls in planning the audit.
  - c. Audit risk and materiality.
  - d. Audit sampling techniques.
  - e. Use of analytical review procedures instead of, or in combination with, tests of details.
  - f. Form and content of working papers.
  - g. Other accounting and auditing matters.
3. What are the firm's procedures for review by supervisors and partners of the reports, financial statements, and working papers for—
- a. Audits?
  - b. Reviews?
  - c. Compilations?

**Hiring**

1. Briefly describe the personal, education, and experience attributes sought in entry-level personnel and in experienced personnel and indicate whether they are objectives or requirements.
2. Which of the following materials, if any, are contained in personnel files and used as a basis for hiring?
  - a. Application forms?
  - b. Resume forms?
  - c. Transcripts?
  - d. Recommendations?

**Professional Development**

1. How many CPE hours per year does the firm require that its professional staff, including CPAs and non-CPAs, participate in?
2. Briefly describe how the firm plans the allocation of CPE hours among accounting and auditing, tax, and other topics.

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\*\* Attach additional sheets if necessary.

3. Does the firm maintain CPE records that contain the following information:
  - a. Name of sponsoring organization?
  - b. Location of program (city/state)?
  - c. Title of program and/or description of content?
  - d. Dates attended or completed?
  - e. CPE hours claimed?
4. How are professional personnel made aware of changes in accounting and auditing standards and in the firm's technical policies and procedures?

**Advancement**

1. Does the firm periodically evaluate the performance of professional personnel and advise them of their progress in the firm?
  - a. When are these evaluations performed?
  - b. Are they documented?

**Acceptance and Continuance of Clients**

1. How does the firm evaluate prospective clients?
2. Indicate when and under what circumstances current audit and accounting clients are evaluated to determine whether the relationship should be continued, and briefly describe the procedures that are followed.

**Inspection**

1. Does the firm perform an annual inspection?
2. If the answer to 1 is yes—
  - a. Who performs the inspection procedures?
  - b. What form of practice aids are used in the performance of inspections?
  - c. Are inspection results and planned follow-up actions, if any, summarized in a memorandum?

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\*\* Attach additional sheets if necessary.

## Consulting Review Program

## REVIEWED FIRM'S EVALUATION OF CONSULTING REVIEW PROGRAM

Consulting Reviewer \_\_\_\_\_

Reviewer's Firm \_\_\_\_\_

Reviewed Firm \_\_\_\_\_

Date of Review \_\_\_\_\_

On a scale of 5 to 1, please circle the best expression of your feelings on each statement.  
 5=Strongly Agree, 4=Agree, 3=Undecided, 2=Disagree, 1=Strongly Disagree.

- |    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 1. | The reviewer provided useful suggestions for improving the quality of the firm's practice. ....            | 5 | 4 | 3 | 2 | 1 |
| 2. | The reviewer showed good judgment in distinguishing between important and unimportant matters. ....        | 5 | 4 | 3 | 2 | 1 |
| 3. | As a result of this review, the firm is better prepared to undergo a peer review or a quality review. .... | 5 | 4 | 3 | 2 | 1 |
| 4. | The reviewer(s) is (are) recommended for other firms. ....   | 5 | 4 | 3 | 2 | 1 |

Additional comments concerning the consulting review program or the reviewer:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Is the firm a PCPS member? \_\_\_\_\_. If not, does it plan to join PCPS? If "no", please indicate why.

\_\_\_\_\_

\_\_\_\_\_

Date \_\_\_\_\_

\_\_\_\_\_  
 Managing Partner or  
 Proprietor

\_\_\_\_\_  
 Managing Partner's or  
 Proprietor's Signature

This form should be filled in after the review is completed and sent directly to:

Quality Review Division  
 American Institute of CPAs  
 1211 Avenue of the Americas  
 New York, NY 10036-8775

### CONSULTING REVIEWER'S COMMENTS\*

1. **Comments on the appropriateness of sample forms, checklists, and questionnaires.** \_\_\_\_

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2. General comments and suggestions concerning the firm's quality control system. \_\_\_\_\_

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\* Attach additional sheets if necessary.

**Consulting Review Program**  
**ENGAGEMENT QUESTIONNAIRE**

**A. General Data:**

Engagement Name or Code No. \_\_\_\_\_

Period covered by  
financial statements \_\_\_\_\_

Major lines of business \_\_\_\_\_

Date of report \_\_\_\_\_

Date report released \_\_\_\_\_

Complex or troublesome areas \_\_\_\_\_

**B. Nature of Entity:**

- ☐ Independent entity  
☐ Consolidated or combined group  
☐ Subsidiary, division or branch  
☐ Other (explain) \_\_\_\_\_

**C. Nature of Service:**

- ☐ Audit engagement  
☐ Review engagement  
☐ Compilation engagement  
☐ Compilation engagement—substantially  
all required disclosures omitted  
☐ Other (explain) \_\_\_\_\_

**D. Financial Statements Included:**

- ☐ Balance sheet  
☐ Income statement  
☐ Statement of changes in financial position  
☐ Statement of cash flows  
☐ Supplementary information (describe) \_\_\_\_\_  
☐ Other (explain) \_\_\_\_\_

**E. Accounting Basis for Financial Statements:**

- ☐ Generally accepted accounting principles  
☐ Cash basis  
☐ Income tax basis  
☐ Other (explain) \_\_\_\_\_

**F. Specific Engagement Questions:**

The objectives of the review of engagements are to evaluate (1) whether the firm appears to be complying with professional standards, including GAAP, GAAS, GAGAS and SSARS, and (2) whether the firm might benefit from suggestions the reviewer may have concerning efficiency or economy in performing the engagement or documenting the results thereof. To the extent necessary to achieve these objectives, the review of engagements should include a review of financial statements, accountants' reports, and selected working papers and may include a discussion with key personnel assigned to the engagement.

The attached questionnaire is divided into two sections. The first section is intended to highlight the types of transactions, events or agreements for which disclosure may be required in the financial statements. This section is applicable to all types of engagements, including review and compilation engagements. The list was developed for use in reviewing engagements of "for profit" companies and will require extensive modification for other types of entities. The reviewer is urged to refer directly to the applicable authoritative pronouncements when appropriate. The second section contains certain areas of documentation that would normally be prepared for engagements.

In conjunction with the review of each engagement, the reviewer should—

- Review the items in Section 1 and consider whether they have been disclosed in accordance with generally accepted accounting principles.
- Review selected working papers, including the items listed in Section 2, and consider whether sufficient documentation exists in the working papers evidencing compliance with the applicable professional standards (GAAS or SSARS).

If there are areas in which the reviewer feels there may be a need for improvement, these should be noted on the separate comment sheets attached to this program. The comments should be clear and concise and should describe specific recommendations for improvements. At the completion of the review, these comments should be given to the firm.

1. Disclosures (Applicable to all engagements except for engagements to compile financial statements that omit substantially all required disclosures.)
  - a. Accounting changes.
  - b. Business combinations.
  - c. Marketable securities.
  - d. Related party transactions (including receivables and payables from officers, employees and affiliates).
  - e. Inventory valuation method(s).
  - f. Leasing arrangements, including operating, direct financing and capital leases.
  - g. Other fixed assets.
  - h. Retirement plans, including pension and profit sharing plans.
    - i. Postretirement health and life insurance benefits.
    - j. Stock option or purchase plans.
  - k. Commitments and contingencies.
  - l. Compensated absences.
  - m. Significant events between the balance sheet and report dates.
  - n. Pledging of assets.
  - o. Loan agreements or covenants imposing significant restrictions.
  - p. Changes in capital accounts.
  - q. Capital stock with significant rights or preferences.
  - r. Discontinued operations.
  - s. Extraordinary or unusual items.
  - t. Valuation allowances.
  - u. Investment tax expenses, benefits, temporary differences, investment tax credits and other information on the effect of income taxes.
  - v. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate.
  - w. Troubled debt restructurings.
  - x. Unusual or specialized accounting policies.
  - y. Research and development costs.

- z. Computer and software costs.
- aa. Interest costs, including any capitalized interest.
- bb. Maturities and sinking fund requirements for the next five years with respect to long-term debt.

## 2. Working Paper Areas

### **Audit Engagements**

- a. Engagement letter (if required by firm policy).
- b. Study and evaluation of internal controls, including computer controls.
- c. Planning.
- d. Audit risk and materiality.
- e. Audit sampling techniques.
- f. Use of analytical review procedures.
- g. Communication of material weaknesses in internal control to senior management.
- h. Audit programs.
  - Scan the audit programs for comprehensiveness.
  - Review working papers evidencing work performed in significant areas.
- i. Management representation letter.
- j. Legal letter.
- k. Summary of passed adjustments.

### **Review Engagements**

- a. Engagement letter or memorandum of oral understanding.
- b. Information about the accounting principles and practices of the industry in which the entity operates and about the entity's business.
- c. Work programs.
- d. Management representation letter (if required by firm policy).
- e. Summary of passed adjustments.
- f. Accountants' inquiries.
- g. Accountants' analytical procedures and related documentation.
- h. Unusual matters considered during the engagement.

### **Compilation Engagements**

- a. Engagement letter or memorandum of oral understanding.
- b. Information about the accounting principles and practices of the industry in which the entity operates and about the entity's business.
- c. Accountants' inquiries (if required by firm policy).
- d. Unusual matters considered during the engagement.
- e. Evidence that the accountant read the financial statements.

**COMMENTARY ON ENGAGEMENT QUESTIONS—CONFIDENTIAL AND FOR INTERNAL USE ONLY**

Engagement Name  
or Code Number

## Commentary

This image shows a full page of white paper with horizontal black ruling lines. The lines are evenly spaced and run across the width of the page, typical of notebook or legal stationery. There are no margins, text, or other markings on the page.



**Engagement Name  
or Code Number**

This image shows a full page of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page, typical of notebook paper. There are no margins, text, or other markings on the page.

## Consulting Review Program

## REVIEWER'S COMPLETION NOTIFICATION

Date \_\_\_\_\_

To: Quality Review Division  
American Institute of CPAs  
1211 Avenue of the Americas  
New York, NY 10036-8775

From: \_\_\_\_\_  
Reviewer

Re: \_\_\_\_\_  
Review Number Firm Number

The consulting review of \_\_\_\_\_ has been completed.

The exit held on \_\_\_\_\_. An invoice for my services and out-of-pocket expenses is attached.

\_\_\_\_\_  
Reviewer's Signature

Note: If the review was arranged by a state CPA society, send this form and your invoice to that state.

## Consulting Review Program

## BILLING FORM

Name and Address of the Reviewed Firm

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Reviewed Firm's AICPA Number: \_\_\_\_\_

Consulting Review Number: \_\_\_\_\_

Name and Address of the Reviewer

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AICPA Member Number: \_\_\_\_\_

## Billing Information

## Gross Fees:

Rate \$ \_\_\_\_\_/day  
Number of days \_\_\_\_\_

Gross Fees

\$ \_\_\_\_\_

## Expenses:

Airfare \$ \_\_\_\_\_  
Hotel \_\_\_\_\_  
Meals \_\_\_\_\_  
Other (identify) \_\_\_\_\_

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Total Expenses

\_\_\_\_\_

Total Fees and Expenses

\$ \_\_\_\_\_

Reviewer's Firm's Federal  
Identification Number

\_\_\_\_\_

\*\*\*\*\*

Submitted by: \_\_\_\_\_ Date: \_\_\_\_\_

[The next page is 10,041.]

## Appendix B

# *Reviewer's Responsibilities When Performing Quality Reviews*

.01 A reviewer has a responsibility to perform a review in a timely, professional manner. This relates not only to the initial submission to the administering entity of the report, letter of comments and working papers on the review, but also to the timely completion of any additional actions necessary to complete the review, such as completing omitted documentation of the work performed on the review or resolving questions raised by the report acceptance body (RAB) or a technical reviewer.

.02 In considering the quality review documents for acceptance, the report acceptance body evaluates the reviewer's performance on the quality review. If serious deficiencies in the reviewer's performance are noted on a particular review, or if a pattern of deficiencies by a particular reviewer over numerous reviews is noted, then the RAB, depending on the particular circumstances, will consider the need to impose corrective or monitoring actions on the service of the reviewer. The RAB will communicate its recommendation for corrective or monitoring actions to its administering entity's quality review committee that may require the reviewer to comply with certain actions, such as the following, in order to continue performing reviews:

- Attendance at a reviewer's training course and receipt of a satisfactory evaluation from the instructor of the course.
- Committee oversight on the next review performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as travel cost, and per diem charges at the team captain rate established by the administering entity for the review teams it forms).
- Completion of all outstanding reviews before accepting an engagement to perform another review.
- Preissuance review of the report, letter of comments, and working papers on future reviews by an individual who has experience in performing quality reviews.

.03 In such situations where these action(s) are imposed, the imposing Quality Review Committee will inform the AICPA Quality Review Executive Committee which may ratify the action(s), and if ratified, may be recognized by other state societies and other review programs (PCPS and SECPS).

.04 If corrective or monitoring actions are imposed on a reviewer by the SECPS Peer Review Committee or the PCPS Peer Review Committee, those actions will also apply to quality reviews performed by the reviewer, unless the actions are specific to the other programs, and need not be ratified by the Quality Review Executive Committee. In addition, any condition imposed on a reviewer will generally apply to the individual's service as a team captain or a team member unless the condition is specified to relate to the individual's service as only a team captain or only a team member.

.05 If a reviewer refuses to cooperate with the administering entity's quality review committee, fails to correct material performance deficiencies, or is found to be so seriously deficient in his or her performance, and education or other corrective or monitoring actions are not considered adequate to correct the deficiencies, the administering entity's quality review committee may recommend to the Quality Review Executive Committee that the reviewer be prohibited from performing quality reviews in the future. In such situations imposed by a state society quality review committee, the Quality Review Executive Committee must ratify the action(s) taken by the state society quality review committee for the reviewer's name to be removed from the list of qualified reviewers.

.06 Corrective or monitoring actions can only be appealed to the practice monitoring committee that imposed the actions. For actions imposed or ratified by the Quality Review Executive Committee, if the reviewer disagrees

with the corrective or monitoring action, he or she may appeal the decision by writing the Quality Review Executive Committee, and explaining why he or she believes that the actions are unwarranted. Upon receipt of the request, the Quality Review Executive Committee will review the request at its next meeting and take the actions it believes appropriate in the circumstances.

.07 If a reviewer is scheduled to perform a review after he or she has filed an appeal, but before the Quality Review Executive Committee has considered the appeal, then that review ordinarily should be overseen by a member of the administering entity's quality review committee at the reviewer's expense. If the reviewer has completed the fieldwork on one or more reviews prior to the imposition of the corrective or monitoring action, then the Quality Review Executive Committee will consider what action, if any, to take regarding those reviews, based on the facts and circumstances.

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QUALITY REVIEW DIVISION

The Quality Review Technical Staff answers  
inquiries about specific audit or accounting problems.

Call

(201) 938-3030

This service is free to AICPA members